

CITY OF LUDINGTON

Mason County, Michigan

FINANCIAL STATEMENTS

December 31, 2013

CITY OF LUDINGTON

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INDEPENDENT AUDITORS' REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Ludington as of and for the year ended December 31, 2013, 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 of material misstatement.

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

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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Ludington as of December 31, 2013, 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.

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 4 through 9), schedules of pension plans and other postemployment benefits funding progress (page 46), and budgetary comparison information (pages 47 and 48) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ludington's basic financial statements. The other supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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 other supplementary information is 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 March 18, 2014 on our consideration of the City of Ludington'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 of Ludington's internal control over financial reporting and compliance.

Berthiaume & Co.

Saginaw, Michigan
March 18, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF LUDINGTON

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2013

As management of the City of Ludington (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the year ended December 31, 2013. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the financial statements and the notes to the financial statements.

FINANCIAL HIGHLIGHTS:

- The City's combined total net position is reported as \$32,078,674 for the year ended December 31, 2013, compared to \$30,334,116 for the year ended December 31, 2012.
- In the City's governmental activities, revenues generated were \$9,096,108 while expenses totaled \$7,055,169
- In the City's business-type activities, revenues generated were \$3,811,859 while expenses totaled \$4,125,321
- Total net position increased by \$1,744,558

OVERVIEW OF THE FINANCIAL STATEMENTS:

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

Government-wide Financial Statements:

The government-wide statements are designed to provide readers with a broad overview of the City's finances, as a whole, in a manner similar to a private sector business. The *statement of net position* presents information on all of the City's assets, liabilities, and deferred outflows and inflows, with the difference between these reported as net position. The *statement of activities* presents all of the City's revenues and expenses, and is reported based on when the underlying event giving rise to the revenue or expense occurs, regardless of when cash is received or paid.

The government-wide statements of the City of Ludington are divided into two categories:

Governmental Activities – Most of the City's basic services are included here, such as the public safety, public works, recreation departments, and general administration. Property taxes, state shared revenue, and charges for services finance most of these activities.

Business-type Activities – The City charges fees to customers to recover all or a significant portion of certain services it provides. These business-type activities include water treatment and distribution and wastewater collection and treatment.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also the legally separate entity of the *Downtown Development Authority* for which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

CITY OF LUDINGTON

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2013

The City has three types of funds:

Governmental Funds – Most of the City's basic services are included in governmental funds, which focus on how cash and other financial assets that can be converted to cash flow in and out. The funds also show the balances left at year-end that are available for spending.

The governmental funds focus on a short-term view, rather than the long-term focus of the government-wide statements, so additional information is provided after each of the governmental fund statements that explain the relationship of differences between the fund and government-wide statements.

The City maintains ten (10) individual governmental funds. Separate information is presented for the General Fund and Major Street Fund, which are considered to be "major" funds. Data from the other eight (8) governmental funds, considered to be "nonmajor" funds, are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual budget for each of its governmental funds. Budgetary comparison statements have been provided for major governmental funds to demonstrate compliance with those budgets.

Proprietary Funds – Proprietary funds are used to report services where the City charges a fee to the customer to recover most or all of the cost of the service rendered. Proprietary funds provide both long- and short-term financial information. The two types of proprietary funds are enterprise and internal service funds.

- Enterprise funds and business-type funds are the same, but the fund statements provide more detail and additional information such as cash flows. The City's enterprise funds are the Sewer Fund, Water Fund, Marina Fund, and Cartier Park Campground Fund.
- Internal service funds are used to report activities that provide supplies and services to the City's other programs. The City's internal service funds are the Motor Pool Fund and Technology Fund.

Fiduciary Funds – Fiduciary funds are used to account for the 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 the funds are not available to support the City's own programs.

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.

Other Information:

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

CITY OF LUDINGTON

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2013

CITY OF LUDINGTON AS A WHOLE

The City's total combined net position for the year ended December 31, 2013 is \$32,078,674, made up of \$13,194,558 in governmental activities and \$18,884,116 in business-type activities.

Combined unrestricted net position, that part of net position that can be used to finance day-to-day operations, is \$4,163,261. Governmental activities unrestricted total is \$2,276,286, while business-type activities is \$1,886,975.

The following table shows comparisons of total assets, deferred outflows and inflows, if any, total liabilities, and total net position in a condensed format for the government-wide net position as of December 31, 2013 and 2012.

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Assets:						
Current assets	\$ 7,367,637	\$ 7,344,352	\$ 2,213,190	\$ 2,734,917	\$ 9,580,827	\$ 10,079,269
Noncurrent assets:						
Restricted assets	-	-	1,136,017	1,096,017	1,136,017	1,096,017
Capital assets	11,856,386	9,607,034	16,961,124	16,926,624	28,817,510	26,533,658
Total assets	<u>19,224,023</u>	<u>16,951,386</u>	<u>20,310,331</u>	<u>20,757,558</u>	<u>39,534,354</u>	<u>37,708,944</u>
Deferred outflow of resources:						
Deferred charge on refunding	<u>48,640</u>	<u>63,692</u>	<u>-</u>	<u>-</u>	<u>48,640</u>	<u>63,692</u>
Liabilities:						
Other liabilities	559,065	361,870	265,660	325,710	824,725	687,580
Long-term liabilities	<u>1,781,495</u>	<u>1,885,313</u>	<u>1,160,555</u>	<u>1,233,297</u>	<u>2,942,050</u>	<u>3,118,610</u>
Total liabilities	<u>2,340,560</u>	<u>2,247,183</u>	<u>1,426,215</u>	<u>1,559,007</u>	<u>3,766,775</u>	<u>3,806,190</u>
Deferred inflow of resources:						
Property tax levied in advance	<u>3,737,545</u>	<u>3,632,330</u>	<u>-</u>	<u>-</u>	<u>3,737,545</u>	<u>3,632,330</u>
Net position:						
Net investment in capital assets	10,300,981	7,937,034	15,861,124	15,756,624	26,162,105	23,693,658
Restricted	617,291	719,031	1,136,017	1,096,017	1,753,308	1,815,048
Unrestricted	<u>2,276,286</u>	<u>2,479,500</u>	<u>1,886,975</u>	<u>2,345,910</u>	<u>4,163,261</u>	<u>4,825,410</u>
Total net position	<u>\$ 13,194,558</u>	<u>\$ 11,135,565</u>	<u>\$ 18,884,116</u>	<u>\$ 19,198,551</u>	<u>\$ 32,078,674</u>	<u>\$ 30,334,116</u>

The City's combined total net position increased by \$1,744,558 during the current year. Governmental activities increased by \$2,058,993 while business-type activities decreased by \$314,435.

CITY OF LUDINGTON

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2013

The following table shows comparison of the change in net position in a condensed format as of December 31, 2013 and 2012:

	<i>Governmental</i>		<i>Business-type</i>		<i>Total</i>	
	<i>Activities</i>		<i>Activities</i>			
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Revenues:						
Program revenues						
Charges for services	\$ 1,104,567	\$ 1,203,656	\$ 3,738,893	\$ 3,862,154	\$ 4,843,460	\$ 5,065,810
Operating grants	1,374,029	922,542	54,069	-	1,428,098	922,542
Capital grants	2,128,392	360,000	-	828	2,128,392	360,828
General revenues						
Property taxes	3,661,987	3,589,078	-	-	3,661,987	3,589,078
Franchise fees	80,059	75,336	-	-	80,059	75,336
State revenue sharing	723,995	705,494	-	-	723,995	705,494
Investment earnings	23,079	46,400	14,577	16,209	37,656	62,609
Other	-	-	4,320	1,591	4,320	1,591
Total revenues	<u>9,096,108</u>	<u>6,902,506</u>	<u>3,811,859</u>	<u>3,880,782</u>	<u>12,907,967</u>	<u>10,783,288</u>
Expenses:						
General government	1,507,105	1,431,268	-	-	1,507,105	1,431,268
Public safety	1,752,548	1,554,070	-	-	1,752,548	1,554,070
Public works	2,401,016	2,058,543	-	-	2,401,016	2,058,543
Health and welfare	174,167	169,774	-	-	174,167	169,774
Community and economic development	448,969	175,477	-	-	448,969	175,477
Recreation and culture	694,248	653,584	-	-	694,248	653,584
Interest on long-term debt	77,116	86,169	-	-	77,116	86,169
Sewer	-	-	1,353,979	1,426,832	1,353,979	1,426,832
Water	-	-	1,562,914	1,717,045	1,562,914	1,717,045
Marina	-	-	1,036,983	905,799	1,036,983	905,799
Cartier Park Campground	-	-	171,445	170,282	171,445	170,282
Total expenses	<u>7,055,169</u>	<u>6,128,885</u>	<u>4,125,321</u>	<u>4,219,958</u>	<u>11,180,490</u>	<u>10,348,843</u>
Excess of revenues over expenses before other	<u>2,040,939</u>	<u>773,621</u>	<u>(313,462)</u>	<u>(339,176)</u>	<u>1,727,477</u>	<u>434,445</u>
Other items:						
Sale of capital assets	17,081	7,630	-	-	17,081	7,630
Transfers	973	1,215	(973)	(1,215)	-	-
Total other items	<u>18,054</u>	<u>8,845</u>	<u>(973)</u>	<u>(1,215)</u>	<u>17,081</u>	<u>7,630</u>
Changes in net position	2,058,993	782,466	(314,435)	(340,391)	1,744,558	442,075
Net position, beginning of year	<u>11,135,565</u>	<u>10,353,099</u>	<u>19,198,551</u>	<u>19,538,942</u>	<u>30,334,116</u>	<u>29,892,041</u>
Net position, end of year	<u>\$13,194,558</u>	<u>\$11,135,565</u>	<u>\$18,884,116</u>	<u>\$19,198,551</u>	<u>\$32,078,674</u>	<u>\$30,334,116</u>

CITY OF LUDINGTON

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2013

CITY OF LUDINGTON'S FUNDS:

Analysis of the City of Ludington's major funds begins on page 13, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. Funds are created to help manage money for specific purposes, as well as show accountability for certain activities, such as specific property tax millages and restricted receipts from Federal and State sources.

The General Fund is the City's largest governmental fund and one of two governmental funds that is considered a major fund. It pays for most of the City's government services. Its major components of revenue are property taxes and state shared revenue. For the year ended December 31, 2013, General Fund financing uses exceeded its financing sources by \$145,161, decreasing its ending fund balance to \$1,583,560. The City's second major governmental fund, the Major Street Fund decreased its ending fund balance by \$80,562.

General Fund Budgetary Highlights:

Over the course of the year, the City Council and City management monitor and amend the budget to account for unanticipated events during the year. The General Fund original adopted budget projected a decrease in fund balance of \$87,900. During the year, the City made budget amendments that resulted in a revised projected net decrease in fund balance of \$146,200 for the year. The actual change to fund balance for the year was a decrease of \$145,161.

Significant revenue changes from the original budgeted figures are as follows:

- Federal grants increased \$51,800 related to a pass through grant for the purchase of mobile radios for the police department
- Revenue sharing (constitutional and EVIP) increased \$44,300
- Sidewalk construction payments from residents increased \$22,600
- Grave openings and sale of gravesites increased \$13,375.
- Sale of refuse stickers increased \$7,026.

Significant expenditure changes from the original budgeted figures are as follows:

- The City approved spending \$44,786 to repave the Post Office parking lot. The DDA will repay the City over a 4-year period of time.
- The City Council approved spending an additional \$69,818 to renovate the restrooms at the north concession stand at Stearns Park.
- The City spent an additional \$50,063 on sidewalk repairs pursuant to the Public Utilities Committee's direction.
- The City spent \$43,813 less than budgeted for trash services from Republic Services, as the City negotiated a reduction in the rate when the agreement was renewed.
- The City spent an additional \$17,308 in fees paid to the city attorneys due to defending lawsuits, responding to FOIA requests and handling special projects.
- The City spent \$50,787 less than budgeted on streetlight electrical costs, as a new survey of streetlights showed that the City was responsible for fewer streetlights than in the past.

Capital Assets and Debt Administration:

At December 31, 2013, the City of Ludington had \$28,817,510 invested in a broad range of capital assets including land, buildings, equipment, land improvements, water and sewer lines and other infrastructure, net of accumulated depreciation. At December 31, 2012, this total was \$26,533,658. Additional

CITY OF LUDINGTON

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2013

Capital Assets and Debt Administration, continued:

information about the City's capital assets is presented in Note 1 and Note 5 of the Notes to the Financial Statements.

At December 31, 2013, the City of Ludington's total indebtedness (not including liabilities for compensated absences and OPEB obligation) was \$2,655,405, of which \$1,555,405 was backed by the full faith and credit of the City and the remaining \$1,100,000 is backed solely by specified revenue sources. Additional information about the City's indebtedness is presented in Note 8 of the Notes to the Financial Statements.

Economic Factors:

The City continues to maintain positive fund balances in each of its funds. Tax assessments have begun to increase slightly but the uncertainty over the potential elimination of revenue from the personal property tax, the continued large increases in health insurance and the upcoming GASB pronouncements requiring recording the unfunded portion of pension plans continue to challenge the City's financial outlook. The State of Michigan has reduced revenue-sharing payments to local governments and has replaced the loss of statutory revenue sharing with an incentive program proposed by the Governor.

This has resulted in employees currently paying up to 20% of the health care costs and a local retirement system that now requires new employees to contribute to the pension plan. In comparison, certain expenses continue to rise at a rate higher than inflation, such as health insurance, the applicable fees and taxes associated with the Affordable Care Act, retirement costs, utility costs and fuel expenses.

The City has approved a budget for 2014 using \$154,200 of the Fund Balance. Because of the uncertainty given the current economic environment, the City has again completed a three-year financial projection through the year 2016 to monitor the effects of the economy on the revenues and expenditures of our major funds as well as to identify trends that could impact the City's operations. Projections for 2014, 2015 and 2016 reflect expenditures in excess of revenues, and the City is evaluating options for which the City will need to address prior to the approval of the 2015 budget.

Contacting the City's Financial Management:

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. If you have questions about this report or need additional financial information, contact John E. Shay, City Manager, 400 S. Harrison Street, Ludington, Michigan 49431.

BASIC FINANCIAL STATEMENTS

CITY OF LUDINGTON

STATEMENT OF NET POSITION

December 31, 2013

	<i>Primary Government</i>			<i>Component Unit</i>
	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Total</i>	
Assets:				
Cash and investments	\$ 2,520,111	\$ 1,510,215	\$ 4,030,326	\$ 164,966
Receivables	4,280,645	698,074	4,978,719	113,628
Internal balances	287,396	(287,396)	-	-
Inventory	138,669	215,137	353,806	-
Prepaid expenses	140,816	77,160	217,976	1,000
Restricted cash and investments	-	1,136,017	1,136,017	-
Capital assets:				
Nondepreciable capital assets	273,085	880,826	1,153,911	-
Depreciable capital assets, net	<u>11,583,301</u>	<u>16,080,298</u>	<u>27,663,599</u>	<u>16,993</u>
Total assets	<u>19,224,023</u>	<u>20,310,331</u>	<u>39,534,354</u>	<u>296,587</u>
Deferred outflow of resources:				
Deferred charge on refunding	<u>48,640</u>	<u>-</u>	<u>48,640</u>	<u>-</u>
Liabilities:				
Accounts payable and accrued expenses	498,525	172,453	670,978	11,047
Unearned revenue	60,540	93,207	153,747	500
Long-term liabilities:				
Due within one year	227,832	70,000	297,832	-
Due in more than one year	<u>1,553,663</u>	<u>1,090,555</u>	<u>2,644,218</u>	<u>-</u>
Total liabilities	<u>2,340,560</u>	<u>1,426,215</u>	<u>3,766,775</u>	<u>11,547</u>
Deferred inflow of resources:				
Property taxes levied in advance	<u>3,737,545</u>	<u>-</u>	<u>3,737,545</u>	<u>111,196</u>
Net position:				
Net investment in capital assets	10,300,981	15,861,124	26,162,105	16,993
Restricted for:				
Debt service	2	200,000	200,002	-
Equipment replacement	-	936,017	936,017	-
Senior center activities	52,163	-	52,163	-
Streets	565,126	-	565,126	-
Unrestricted	<u>2,276,286</u>	<u>1,886,975</u>	<u>4,163,261</u>	<u>156,851</u>
Total net position	<u>\$ 13,194,558</u>	<u>\$ 18,884,116</u>	<u>\$ 32,078,674</u>	<u>\$ 173,844</u>

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

CITY OF LUDINGTON

STATEMENT OF ACTIVITIES

Year Ended December 31, 2013

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Functions/Programs					
PRIMARY GOVERNMENT:					
<i>Governmental activities:</i>					
General government	\$ 1,507,105	\$ 430,647	\$ 1,322	\$ -	\$ (1,075,136)
Public safety	1,752,548	132,537	124,581	-	(1,495,430)
Public works	2,401,016	428,144	669,751	2,128,392	825,271
Health and welfare	174,167	7,487	222,161	-	55,481
Community and economic development	448,969	1,650	308,380	-	(138,939)
Recreation and culture	694,248	104,102	47,834	-	(542,312)
Interest on long-term debt	77,116	-	-	-	(77,116)
Total governmental activities	<u>7,055,169</u>	<u>1,104,567</u>	<u>1,374,029</u>	<u>2,128,392</u>	<u>(2,448,181)</u>
<i>Business-type activities:</i>					
Sewer	1,353,979	1,397,048	-	-	43,069
Water	1,562,914	1,401,087	-	-	(161,827)
Marina	1,036,983	734,102	54,069	-	(248,812)
Cartier Park Campground	171,445	206,656	-	-	35,211
Total business-type activities	<u>4,125,321</u>	<u>3,738,893</u>	<u>54,069</u>	<u>-</u>	<u>(332,359)</u>
Total primary government	<u>\$ 11,180,490</u>	<u>\$ 4,843,460</u>	<u>\$ 1,428,098</u>	<u>\$ 2,128,392</u>	<u>\$ (2,780,540)</u>
COMPONENT UNIT:					
Downtown development authority	<u>\$ 145,300</u>	<u>\$ 3,255</u>	<u>\$ 57,281</u>	<u>\$ -</u>	<u>\$ (84,764)</u>

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

	<i>Primary Government</i>			<i>Component Unit</i>
	<i>Governmental Activities</i>	<i>Business- type Activities</i>	<i>Total</i>	
<i>Changes in net position:</i>				
Net (Expense) Revenue	\$ (2,448,181)	\$ (332,359)	\$ (2,780,540)	\$ (84,764)
General revenues:				
Taxes:				
Property taxes, levied for general purpose	3,588,377	-	3,588,377	-
Property taxes, levied and captured by DDA	-	-	-	105,723
Payment in lieu of taxes	73,610	-	73,610	-
Franchise fees	80,059	-	80,059	-
Grants and contributions not restricted to specific programs	723,995	-	723,995	-
Unrestricted investment earnings	23,079	14,577	37,656	1,103
Other	-	4,320	4,320	-
Special item - Gain (loss) on sale of capital asset	17,081	-	17,081	-
Transfers	973	(973)	-	-
Total general revenues and other	<u>4,507,174</u>	<u>17,924</u>	<u>4,525,098</u>	<u>106,826</u>
Changes in net position	2,058,993	(314,435)	1,744,558	22,062
Net position, beginning of year	<u>11,135,565</u>	<u>19,198,551</u>	<u>30,334,116</u>	<u>151,782</u>
Net position, end of year	<u>\$ 13,194,558</u>	<u>\$ 18,884,116</u>	<u>\$ 32,078,674</u>	<u>\$ 173,844</u>

CITY OF LUDINGTON

GOVERNMENTAL FUNDS

BALANCE SHEET

December 31, 2013

	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Assets:				
Cash and investments	\$ 1,402,285	\$ 275,367	\$ 695,060	\$ 2,372,712
Taxes receivable	3,737,545	-	-	3,737,545
Accounts receivable	90,012	64	2	90,078
Special assessments receivable	3,484	-	-	3,484
Notes receivable	-	-	5,207	5,207
Accrued interest receivable	592	113	217	922
Due from other governmental units	163,448	78,844	185,269	427,561
Due from other funds	72,220	-	-	72,220
Inventory	12,510	47,185	-	59,695
Prepaid expenditures	98,257	1,735	4,475	104,467
Total assets	<u>\$ 5,580,353</u>	<u>\$ 403,308</u>	<u>\$ 890,230</u>	<u>\$ 6,873,891</u>
Liabilities:				
Accounts payable	\$ 133,636	\$ 16,140	\$ 132,544	\$ 282,320
Accrued expenses	89,734	5,832	12,601	108,167
Due to other governmental units	509	-	3,486	3,995
Due to other funds	-	-	49,510	49,510
Deposits payable	26,849	-	-	26,849
Unearned revenue	8,520	-	52,020	60,540
Total liabilities	<u>259,248</u>	<u>21,972</u>	<u>250,161</u>	<u>531,381</u>
Deferred inflows of resources:				
Property taxes levied in advance	<u>3,737,545</u>	<u>-</u>	<u>-</u>	<u>3,737,545</u>
Fund balances:				
Nonspendable	110,767	48,920	9,682	169,369
Restricted	-	332,416	284,875	617,291
Committed	-	-	345,512	345,512
Assigned	9,184	-	-	9,184
Unassigned	1,463,609	-	-	1,463,609
Total fund balances	<u>1,583,560</u>	<u>381,336</u>	<u>640,069</u>	<u>2,604,965</u>
Total liabilities, deferred inflows, and fund balances	<u>\$ 5,580,353</u>	<u>\$ 403,308</u>	<u>\$ 890,230</u>	<u>\$ 6,873,891</u>

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

CITY OF LUDINGTON

RECONCILIATION OF FUND BALANCES OF THE GOVERNMENTAL FUNDS TO NET POSITION OF GOVERNMENTAL ACTIVITIES

December 31, 2013

Fund balances for governmental funds			\$ 2,604,965
Net position reported for governmental activities in the statement of net position is different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.			
Governmental capital assets	11,844,510		
Less accumulated depreciation	<u>(2,791,374)</u>	9,053,136	
Bond issuance costs are recorded as expenditures in the governmental funds but are deferred in the statement of net position and amortized over the life of the bond.			48,640
Interest payable in the governmental activities is not payable from current resources and therefore is not reported in the governmental funds.			(23,964)
Net other postemployment benefit obligation (OPEB) is not reported in the governmental funds.			(131,804)
Long-term liabilities are not due and payable in the current year and therefore are not reported in the governmental funds.			
Bonds payable	(1,555,405)		
Compensated absences payable	<u>(87,935)</u>	(1,643,340)	
The assets and liabilities of internal service funds are included in governmental activities in the statement of net position.			<u>3,286,925</u>
Net position of governmental activities			<u><u>\$13,194,558</u></u>

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

CITY OF LUDINGTON

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended December 31, 2013

	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Revenues:				
Property taxes	\$ 3,661,987	\$ -	\$ -	\$ 3,661,987
Licenses and permits	116,638	-	-	116,638
Federal grants	93,581	-	374,466	468,047
State grants	738,069	460,582	209,169	1,407,820
State grants - MDOT pass through	-	2,128,392	-	2,128,392
Contributions from other units	52,944	-	194,753	247,697
Charges for services	584,727	-	42,376	627,103
Fines and forfeits	41,312	-	-	41,312
Interest and rents	20,539	2,278	3,068	25,885
Other revenue	141,700	6,854	35,994	184,548
Total revenues	<u>5,451,497</u>	<u>2,598,106</u>	<u>859,826</u>	<u>8,909,429</u>
Expenditures:				
Current				
General government	1,467,281	-	-	1,467,281
Public safety	1,645,992	-	-	1,645,992
Public works	1,223,096	289,583	364,043	1,876,722
Health and welfare	-	-	170,411	170,411
Community and economic development	80,269	-	367,445	447,714
Recreation and culture	466,379	-	151,739	618,118
Other	39,713	-	-	39,713
Capital outlay	344,368	260,693	8,248	613,309
Capital outlay - MDOT pass through	-	2,128,392	-	2,128,392
Debt service				
Principal	8,755	-	195,000	203,755
Interest and fees	-	-	65,315	65,315
Total expenditures	<u>5,275,853</u>	<u>2,678,668</u>	<u>1,322,201</u>	<u>9,276,722</u>
Excess (deficiency) of revenues over expenditures	<u>175,644</u>	<u>(80,562)</u>	<u>(462,375)</u>	<u>(367,293)</u>
Other financing sources (uses):				
Contract financing	89,160	-	-	89,160
Transfers from (to) other funds	(409,965)	-	410,938	973
Net other financing sources (uses)	<u>(320,805)</u>	<u>-</u>	<u>410,938</u>	<u>90,133</u>
Changes in fund balances	(145,161)	(80,562)	(51,437)	(277,160)
Fund balances, beginning of year	<u>1,728,721</u>	<u>461,898</u>	<u>691,506</u>	<u>2,882,125</u>
Fund balances, end of year	<u>\$ 1,583,560</u>	<u>\$ 381,336</u>	<u>\$ 640,069</u>	<u>\$ 2,604,965</u>

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

CITY OF LUDINGTON

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

Year Ended December 31, 2013

Changes in fund balances - total governmental funds			\$ (277,160)
Change in net position reported for governmental activities in the statement of activities is different because:			
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense.			
Capital outlay		2,679,060	
Less depreciation expense		<u>(321,948)</u>	2,357,112
Bond issuance costs are recorded as expenditures in the governmental funds but are deferred in the statement of net position and amortized over the life of the bond.			(15,052)
Proceeds from contract financing are reported as financing sources in governmental funds; however, contract financing increases long-term liabilities and does not affect the statement of activities.			(89,160)
Repayments of principal on long-term obligations are expenditures in governmental funds but the payments reduce long-term liabilities in the statement of net position.			203,755
The increase in net other postemployment benefit obligation (OPEB) does not require the use of current resources and is not reported in the governmental funds.			(24,598)
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 governmental funds.			
Change in compensated absences payable		13,191	
Change in accrued interest on bonds		<u>3,251</u>	16,442
The net revenue (expense) of the internal service fund reported with governmental activities.			<u>(112,346)</u>
Change in net position of governmental activities			<u>\$ 2,058,993</u>

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

CITY OF LUDINGTON

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

December 31, 2013

	<i>Enterprise Funds</i>					<i>Internal Service Funds</i>
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Marina Fund</i>	<i>Nonmajor Cartier Park Campground Fund</i>	<i>Total</i>	
Assets:						
Current assets:						
Cash and investments	\$ 411,145	\$ 508,849	\$ 389,745	\$ 200,476	\$ 1,510,215	\$ 147,399
Accounts receivable	348,108	308,184	90	-	656,382	14,399
Accrued interest receivable	380	463	158	83	1,084	57
Due from other governmental units	-	-	40,608	-	40,608	1,392
Inventory	44,975	138,216	31,946	-	215,137	78,974
Prepaid expenses	27,692	37,377	10,459	1,632	77,160	36,349
Total current assets	<u>832,300</u>	<u>993,089</u>	<u>473,006</u>	<u>202,191</u>	<u>2,500,586</u>	<u>278,570</u>
Noncurrent assets:						
Restricted cash and investments	507,004	629,013	-	-	1,136,017	-
Capital assets:						
Nondepreciable capital assets	72,415	17,018	791,393	-	880,826	4,250
Depreciable capital assets, net	<u>8,347,385</u>	<u>5,862,770</u>	<u>1,725,394</u>	<u>144,749</u>	<u>16,080,298</u>	<u>2,799,000</u>
Total noncurrent assets	<u>8,926,804</u>	<u>6,508,801</u>	<u>2,516,787</u>	<u>144,749</u>	<u>18,097,141</u>	<u>2,803,250</u>
Total assets	<u>9,759,104</u>	<u>7,501,890</u>	<u>2,989,793</u>	<u>346,940</u>	<u>20,597,727</u>	<u>3,081,820</u>
Liabilities:						
Current liabilities:						
Accounts payable	47,998	67,641	10,354	2,434	128,427	46,623
Accrued expenses	12,748	23,626	1,846	906	39,126	6,607
Due to other funds	-	-	-	-	-	22,710
Deposits payable	-	4,900	-	-	4,900	-
Unearned revenue	-	-	93,147	60	93,207	-
Current long-term debt	70,000	-	-	-	70,000	-
Total current liabilities	<u>130,746</u>	<u>96,167</u>	<u>105,347</u>	<u>3,400</u>	<u>335,660</u>	<u>75,940</u>
Noncurrent liabilities:						
Compensated absences payable	10,943	25,132	4,778	-	40,853	6,351
Long-term debt	1,030,000	-	-	-	1,030,000	-
Net OPEB obligation	<u>6,586</u>	<u>11,745</u>	<u>1,371</u>	<u>-</u>	<u>19,702</u>	<u>-</u>
Total noncurrent liabilities	<u>1,047,529</u>	<u>36,877</u>	<u>6,149</u>	<u>-</u>	<u>1,090,555</u>	<u>6,351</u>
Total liabilities	<u>1,178,275</u>	<u>133,044</u>	<u>111,496</u>	<u>3,400</u>	<u>1,426,215</u>	<u>82,291</u>

continued

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

CITY OF LUDINGTON

PROPRIETARY FUNDS

STATEMENT OF NET POSITION, CONTINUED

December 31, 2013

	<i>Enterprise Funds</i>					<i>Internal Service Funds</i>
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Marina Fund</i>	<i>Nonmajor Cartier Park Campground Fund</i>	<i>Total</i>	
Net position:						
Net investment in capital assets	7,319,800	5,879,788	2,516,787	144,749	15,861,124	2,803,250
Restricted for:						
Debt service	200,000	-	-	-	200,000	-
Equipment replacement	307,004	629,013	-	-	936,017	-
Unrestricted	<u>754,025</u>	<u>860,045</u>	<u>361,510</u>	<u>198,791</u>	<u>2,174,371</u>	<u>196,279</u>
Total net position	<u>\$ 8,580,829</u>	<u>\$ 7,368,846</u>	<u>\$ 2,878,297</u>	<u>\$ 343,540</u>	\$ 19,171,512	<u>\$ 2,999,529</u>
Adjustment to reflect the consolidation of internal service funds					(287,396)	
Net position of business-type activities					<u>\$ 18,884,116</u>	

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

CITY OF LUDINGTON

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

Year Ended December 31, 2013

	<i>Enterprise Funds</i>					<i>Internal Service Funds</i>
	<i>Nonmajor</i>				<i>Total</i>	
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Marina Fund</i>	<i>Cartier Park Campground Fund</i>		
Operating revenues:						
Charges for services	\$ 1,320,256	\$ 1,292,913	\$ 734,072	\$ 191,710	\$ 3,538,951	\$ -
Equipment rental	-	-	-	-	-	894,447
Other	76,792	7,738	30	14,946	99,506	184,970
Total operating revenues	<u>1,397,048</u>	<u>1,300,651</u>	<u>734,102</u>	<u>206,656</u>	<u>3,638,457</u>	<u>1,079,417</u>
Operating expenses:						
Personnel	322,629	499,636	116,330	64,247	1,002,842	182,876
Fringe benefits	184,297	303,706	34,864	7,325	530,192	110,541
Supplies	114,519	66,749	365,922	13,300	560,490	400,752
Contracted services	67,318	105,301	270,529	18,203	461,351	70,099
Administrative expense	75,600	75,600	44,000	33,000	228,200	56,800
Telephone	3,879	7,113	2,889	2,027	15,908	2,040
Mileage	-	161	363	-	524	86
Dues, licenses and permits	622	672	450	-	1,744	-
Education and training	2,409	924	-	-	3,333	-
Printing and publishing	-	-	2,865	863	3,728	-
Insurance	29,702	29,702	8,251	-	67,655	57,754
Utilities	198,890	138,944	25,885	16,996	380,715	34,129
Repairs and maintenance	17,101	35,037	9,234	2,554	63,926	108,877
Equipment rental	60,511	77,937	9,348	7,426	155,222	3,426
Other services and supplies	-	-	32,291	60	32,351	155
Depreciation	<u>247,012</u>	<u>207,937</u>	<u>112,143</u>	<u>4,158</u>	<u>571,250</u>	<u>206,485</u>
Total operating expenses	<u>1,324,489</u>	<u>1,549,419</u>	<u>1,035,364</u>	<u>170,159</u>	<u>4,079,431</u>	<u>1,234,020</u>
Operating income (loss)	<u>72,559</u>	<u>(248,768)</u>	<u>(301,262)</u>	<u>36,497</u>	<u>(440,974)</u>	<u>(154,603)</u>
Non-operating revenues (expenses):						
State grant - dredging	-	-	54,069	-	54,069	-
Interest income	3,660	7,125	2,644	1,148	14,577	1,019
Rental income	-	100,436	-	-	100,436	-
Net gain on sale of assets	-	-	-	-	-	14,361
Other income - Scrap sales	-	4,320	-	-	4,320	-
Interest expense	(19,013)	-	-	-	(19,013)	-
Net non-operating	<u>(15,353)</u>	<u>111,881</u>	<u>56,713</u>	<u>1,148</u>	<u>154,389</u>	<u>15,380</u>

continued

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

CITY OF LUDINGTON

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION, CONTINUED

Year Ended December 31, 2013

	<i>Enterprise Funds</i>					
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Marina Fund</i>	<i>Nonmajor Cartier Park Campground Fund</i>	<i>Total</i>	<i>Internal Service Funds</i>
Changes in net position before transfers	57,206	(136,887)	(244,549)	37,645	(286,585)	(139,223)
Transfers to other funds	-	-	(973)	-	(973)	-
Changes in net position	57,206	(136,887)	(245,522)	37,645	(287,558)	(139,223)
Net position, beginning of year	8,523,623	7,505,733	3,123,819	305,895		3,138,752
Net position, end of year	<u>\$ 8,580,829</u>	<u>\$ 7,368,846</u>	<u>\$ 2,878,297</u>	<u>\$ 343,540</u>		<u>\$ 2,999,529</u>
Adjustment to reflect the consolidation of internal service funds					(26,877)	
Changes in net position of business-type activities					<u>\$ (314,435)</u>	

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

CITY OF LUDINGTON

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

Year Ended December 31, 2013

	<i>Enterprise Funds</i>					<i>Internal Service Funds</i>
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Marina Fund</i>	<i>Nonmajor Cartier Park Campground Fund</i>	<i>Total</i>	
Cash flows from operating activities:						
Cash received from customers	\$ 1,364,272	\$ 1,301,256	\$ 688,295	\$ 206,716	\$ 3,560,539	\$ 182,543
Cash received from interfund services	-	-	-	-	-	917,157
Cash payments to employees	(324,098)	(502,437)	(114,802)	(64,247)	(1,005,584)	(182,470)
Cash payments to suppliers for goods and services	(767,554)	(872,946)	(819,077)	(106,453)	(2,566,030)	(845,862)
Net cash provided (used) by operating activities	<u>272,620</u>	<u>(74,127)</u>	<u>(245,584)</u>	<u>36,016</u>	<u>(11,075)</u>	<u>71,368</u>
Cash flows from non-capital financing activities:						
State grant - dredging	-	-	54,069	-	54,069	-
Other income - scrap sales	-	4,320	-	-	4,320	-
Transfers from (to) other funds	-	-	(973)	-	(973)	-
Net cash provided (used) by non-capital financing activities	<u>-</u>	<u>4,320</u>	<u>53,096</u>	<u>-</u>	<u>57,416</u>	<u>-</u>
Cash flows from capital and related financing activities:						
Sale of capital assets	-	-	-	-	-	15,214
Acquisition and construction of capital assets	(167,858)	(422,657)	-	(15,234)	(605,749)	(99,578)
Principal payments	(70,000)	-	-	-	(70,000)	-
Interest paid	(19,013)	-	-	-	(19,013)	-
Net cash used by capital and related financing activities	<u>(256,871)</u>	<u>(422,657)</u>	<u>-</u>	<u>(15,234)</u>	<u>(694,762)</u>	<u>(84,364)</u>
Cash flows from investing activities:						
Interest received	3,733	7,390	2,770	1,155	15,048	1,046
Rent received	-	100,436	-	-	100,436	-
Net cash provided by investing activities	<u>3,733</u>	<u>107,826</u>	<u>2,770</u>	<u>1,155</u>	<u>115,484</u>	<u>1,046</u>

continued

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

CITY OF LUDINGTON

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS, CONTINUED

Year Ended December 31, 2013

	<i>Enterprise Funds</i>					
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Marina Fund</i>	<i>Nonmajor Cartier Park Campground Fund</i>	<i>Total</i>	<i>Internal Service Funds</i>
Net increase (decrease) in cash and investments	19,482	(384,638)	(189,718)	21,937	(532,937)	(11,950)
Cash and investments, beginning of year	<u>898,667</u>	<u>1,522,500</u>	<u>579,463</u>	<u>178,539</u>	<u>3,179,169</u>	<u>159,349</u>
Cash and investments, end of year	<u>\$ 918,149</u>	<u>\$ 1,137,862</u>	<u>\$ 389,745</u>	<u>\$ 200,476</u>	<u>\$ 2,646,232</u>	<u>\$ 147,399</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:						
Operating income (loss)	\$ 72,559	\$ (248,768)	\$ (301,262)	\$ 36,497	\$ (440,974)	\$ (154,603)
Adjustments:						
Depreciation	247,012	207,937	112,143	4,158	571,250	206,485
Change in assets and liabilities:						
Accounts receivable	(32,776)	605	(90)	-	(32,261)	(1,692)
Due from other governmental units	-	-	(40,269)	-	(40,269)	(735)
Inventory	2,939	5,204	(12,172)	-	(4,029)	11,013
Prepaid expenses	(161)	(147)	(1,385)	(306)	(1,999)	2,241
Accounts payable	(18,283)	(43,872)	732	(4,412)	(65,835)	(14,457)
Accrued expenses	2,799	6,715	639	19	10,172	1,036
Due to other funds	-	-	-	-	-	22,710
Deposits payable	-	1,000	-	-	1,000	-
Deferred revenue	-	-	(5,448)	60	(5,388)	-
Compensated absences payable	(1,522)	(2,871)	1,531	-	(2,862)	(630)
Net OPEB obligation	<u>53</u>	<u>70</u>	<u>(3)</u>	<u>-</u>	<u>120</u>	<u>-</u>
Net cash provided (used) by operating activities	<u>\$ 272,620</u>	<u>\$ (74,127)</u>	<u>\$ (245,584)</u>	<u>\$ 36,016</u>	<u>\$ (11,075)</u>	<u>\$ 71,368</u>

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

CITY OF LUDINGTON

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

December 31, 2013

	<i>Police Pension Trust Fund</i>	<i>Agency Funds</i>
	<u> </u>	<u> </u>
Assets:		
Cash and investments	\$ 4,668,700	\$ 4,161,515
Taxes receivable	297,857	-
Accrued interest receivable	33	-
	<u>4,966,590</u>	<u>\$ 4,161,515</u>
Total assets		
Liabilities:		
Accounts payable	-	32,950
Undistributed tax collections	-	4,128,565
	<u>-</u>	<u>\$ 4,161,515</u>
Total liabilities		
Deferred inflows of resources:		
Property taxes levied in advance	<u>297,857</u>	
Net position:		
Held in trust for pension benefits	<u>4,668,733</u>	
Total net position	<u>\$ 4,668,733</u>	

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

CITY OF LUDINGTON

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

Year Ended December 31, 2013

	<i>Police Pension Trust Fund</i>
	<u> </u>
Additions:	
Property taxes	\$ 289,155
Employee contributions	51,606
Investment income (loss)	<u>681,775</u>
Total additions	<u>1,022,536</u>
Deductions:	
Benefit payments	330,836
Fees and other	<u>51,187</u>
Total deductions	<u>382,023</u>
Net increase	640,513
Net position, beginning of year	<u>4,028,220</u>
Net position, end of year	<u>\$ 4,668,733</u>

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

NOTES TO FINANCIAL STATEMENTS

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Ludington was incorporated in 1873 under the provisions of the Home Rule Act of the State of Michigan. The City operates a Council-Manager form of government and provides the following services as authorized by its charter: general administrative services, public safety, highway and street maintenance, health, culture, recreation and other governmental functions.

The accounting policies of the City of Ludington conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity:

As required by accounting principles generally accepted in the United States of America, these financial statements of the reporting entity include those of the City and its component units. Component units are entities for which the government is considered to be financially accountable. The following component units are included in the City's reporting entity.

Blended Component Unit:

Building Authority – The Building Authority is governed by a board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were a part of the primary government because its primary purpose is to finance and construct the City's public buildings. The Building Authority is reported as a debt service fund.

Discretely Presented Component Unit:

Downtown Development Authority – The Downtown Development Authority (DDA) is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City. The DDA was created to prevent and correct deterioration, encourage historical preservation, and promote economic growth within the downtown district. The DDA's board is appointed by the City Council. The budgets and expenditures of the Downtown Development Authority must be approved by the City Council. The City also has the ability to significantly influence operations of the Downtown Development Authority.

Joint Ventures:

Western Mason County Fire District Authority – The City participates with the Townships of Hamlin and Pere Marquette. The Authority was established on May 20, 1996 in accordance with state law 1988 P.A. 57 for the purpose of forming a joint fire commission for uniform and orderly control of fire protection, fire department functions (including vehicle purchase and insurance coverage), and financing within the territorial limits of the City of Ludington and the Townships of Hamlin and Pere Marquette. Complete financial statements for the Authority can be obtained from Pere Marquette Township at 1699 South Pere Marquette Highway, Ludington, Michigan.

Government-wide and Fund Financial Statements:

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these financial statements. Governmental activities, normally supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes (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 revenue.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation:

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

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

Property taxes, sales taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

General Fund – The General Fund is the City’s primary operating fund. It accounts for all financial resources, except for those required to be accounted for in another fund.

Special Revenue Fund – Major Street Fund – The Major Street Fund accounts for the maintenance and construction of streets designated by the Michigan Department of Transportation as major streets in the City.

The City reports the following major proprietary funds:

Enterprise Fund – Sewer Fund – The Sewer Fund accounts for the operation and maintenance of the City’s sewage disposal system.

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Enterprise Fund – Water Fund – The Water Fund accounts for the operation and maintenance of the City's water supply system.

Enterprise Fund – Marina Fund – The Marina Fund accounts for the operation and maintenance of the City's marina.

Additionally, the City reports the following fund types:

Special Revenue Funds – Special revenue funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Debt Service Funds – Debt service funds account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Capital Project Funds – Capital project funds account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets (other than those financed by proprietary funds).

Internal Service Funds – Internal service funds account for the financing of goods or services provided by one department to other departments of the City, on a cost-reimbursement basis. The City reports on two internal service funds: 1) the motor pool fund and 2) the technology fund.

Fiduciary Funds – Fiduciary funds account for resources held for the benefit of parties outside the government. Because these funds represent trust responsibilities of the City, these assets are restricted in purpose and do not represent discretionary assets of the City. The City's fiduciary fund is the Police Pension Trust Fund. The City's fiduciary activities are reported in separate statements of fiduciary net position and changes in fiduciary net position.

Agency funds account for assets held by the City in a trustee capacity. These funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results in operations. The City's Tax Collection Fund accounts for taxes collected on behalf of and distributed to other governmental units.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's enterprise functions and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenue reported for the various functions concerned.

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

When an expense is incurred for purposes for which both restricted and unrestricted net position or fund balance are available, the City's policy is to first apply restricted resources. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the City's policy to spend funds in this order: committed, assigned, and unassigned.

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS
December 31, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations.

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balances:

Deposits and Investments - Cash includes cash on hand, demand deposits, certificates of deposit and short term investments with a maturity of three months or less when acquired.

Interfund Receivables and Payables - Generally, outstanding amounts owed between funds are classified as "due from/to other funds". These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased for the cemetery and public works departments.

Capital Assets - Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the government) are defined by the City as assets with an individual cost in excess of \$5,000 and an estimated useful life in excess of one year.

Table with 2 columns: Asset Category and Useful Life. Rows include Buildings and improvements (20-75 years), Furniture and equipment (5-10 years), Infrastructure (25 years), Land improvements (5-50 years), Machinery and equipment (5-25 years), and Utility systems and plants (15-99 years).

The City has a collection of sculptures located at the waterfront park. The collection is not capitalized because it meets all the following conditions: (1) the collection is held for reasons other than financial gain; (2) the collection is protected, kept unencumbered, cared for, and preserved; (3) the collection is subject to City policy requiring that proceeds from sales of collection items be used to acquire other items for collections.

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Deferred Outflows of Resources – A deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period.

Deferred Inflows of Resources – A deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period. For governmental funds this includes unavailable revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period.

Compensated Absences – It is the City's policy to permit employees to accumulate earned but unused sick and vacation days. A liability is recorded when incurred in the government-wide financial statements and the proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only when they have matured or come due for payment – generally when an individual's employment has terminated as of year end.

Long-term Obligations – In the government-wide financial statements and the proprietary 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.

Other Postemployment Benefit Costs – The City offers a monthly stipend to qualified retirees to be used for postemployment health care. The City obtained an actuarial valuation to compute the annual required contribution (ARC) necessary to fund the obligation over the remaining amortization period. In the governmental funds, OPEB costs are recognized as the stipend is paid. For the government-wide statements and proprietary funds, the City reports the full accrual cost equal to the current year required contribution less any current year paid benefits, adjusted for interest and "adjustment to the ARC" on the beginning of the year underpaid amount, if any.

Fund Balances – In the fund financial statements, fund balance may be presented in five possible categories, each of which identifies the extent to which the City is bound to honor constraints on the specific purpose for which amounts can be spent:

Nonspendable – Amounts that are not in spendable form or are legally or contractually required to be maintained intact.

Restricted – Amounts that are legally restricted by outside parties, constitutional provisions or enabling legislation for use for a specific purpose.

Committed – Amounts that have been formally set aside by the City Council for use for specific purposes. Commitments are made and can be rescinded only via resolution of the City Council.

Assigned – Amounts that are intended to be used for specific purposes expressed by the City Council.

Unassigned – Amounts that do not fall into any category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Property Taxes – Property taxes attach as enforceable liens on properties as of the prior December 31. The related summer property taxes are levied on September 1 and are payable from the date of levy through October 9. The winter property taxes are levied on December 1 and are payable from the date of levy through February 14. The City bills and collects its own property taxes and also taxes for taxing authorities. Collections of all the taxes and remittances of them to the other taxing authorities are accounted for in an agency fund.

Revenues for 2013 include property taxes levied in 2012 but appropriated by a City ordinance to finance 2013 operations. Property taxes levied in 2013 for the operations of 2014 are a lien against properties and are an asset of the City. They are recorded as taxes receivable and a deferred inflow of resources at December 31, 2013. In 2012, the City levied property taxes on an assessed property tax value of \$261,253,177 (exclusive of any Michigan Tax Tribunal or Board of Review adjustments). Taxes levied consisted of 11.5675 mills for the City's operating purposes, 2.7762 mills for refuse services, and 1.1501 mills for police pension. The DDA levied property taxes on an assessed property tax value of \$25,529,338 (exclusive of any Michigan Tax Tribunal or Board of Review adjustments). Taxes levied consisted of 1.6080 mills.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Eliminations and Reclassifications:

In the process of aggregating data for the statement of net position and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

Reporting Change:

During the year, the City adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources.

NOTE 2: 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 for the General Fund and all special revenue funds. Prior to November 1 of each year, the City Manager submits to the City Council a proposed operating budget for the year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY, CONTINUED

During the month of November, the City Council holds open meetings to review the budget in detail and to obtain taxpayer comments. At the first Council meeting in December, the budget is legally enacted by adoption of the City Council. Any revision that alters the total expenditures of any fund must be approved by the City Council. Formal budgetary integration is employed as a management control device during the year for all funds. Governmental fund budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A comparison of actual results of operations to the budgeted amounts for the General Fund as well as any other major funds is included in the required supplementary information. All annual appropriations lapse at fiscal year end.

Excess of Expenditures over Appropriations in Budgeted Funds:

During the year, the City did not incur expenditures in excess of the amounts budgeted.

State Construction Code Act:

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus generated since January 1, 2000, reported in the General Fund, is as follows:

Cumulative surplus at January 1, 2013		\$	-
Current year building permit revenue			36,579
Related expenses:			
Direct costs	25,313		
Indirect costs	25,534		50,847
			<hr/>
Cumulative surplus at December 31, 2013		\$	-

NOTE 3: DEPOSITS AND INVESTMENTS

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency of instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The Police Pension Trust Fund is also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity contracts, real estate leased to public entities, mortgages, real estate (if the trust funds assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 3: DEPOSITS AND INVESTMENTS, CONTINUED

The City has designated ten banks for the deposit of its funds. The investment policy adopted by the City Council is in accordance with Public Act 196 of 1997. The City's deposits and investments have been made in accordance with statutory authority. The City's deposits and investments are subject to several types of risk, which are presented in more detail as follows:

Custodial Credit Risk of Bank Deposits:

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a written deposit policy for custodial credit risk. At year end, the City had \$8,893,225 of bank deposits (certificates of deposit, checking, and savings accounts), of which \$1,026,124 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk:

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a maximum 270-day maturity. At year end, the City had the following investments:

<u>Primary Government Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
U.S. Treasury bonds	\$ 758,677	1.95 years

Credit Risk:

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities are as follows:

<u>Primary Government Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
U.S. Treasury bonds	\$ 758,677	Aaa	Moody's
Bond mutual funds	42,292	Not Rated	N/A

<u>Fiduciary Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Money market	\$ 81,777	Not Rated	N/A
Mutual fund - equity	3,031,519	Not Rated	N/A
Mutual fund - fixed	1,385,008	Not Rated	N/A

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 4: RESTRICTED ASSETS AND BOND RESERVES

There are a number of limitations and restrictions contained in the various bond indentures, including requirements to maintain certain restricted assets. The City is in compliance with all significant provisions of the bond indentures.

At December 31, 2013 the City had these accounts established and had restricted cash as follows:

	<i>Restricted Cash and Investments</i>
Sewer Fund:	
Bond reserve	\$ 200,000
Equipment Replacement	307,004
Water Fund:	
Equipment Replacement	<u>629,013</u>
	<u>\$ 1,136,017</u>

NOTE 5: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2013 was as follows:

	<i>January 1, 2013</i>	<i>Additions</i>	<i>Retirements</i>	<i>December 31, 2013</i>
Governmental activities:				
Nondepreciable capital assets:				
Land	<u>\$ 262,280</u>	<u>\$ 10,805</u>	<u>\$ -</u>	<u>\$ 273,085</u>
Depreciable capital assets:				
Buildings and improvements	5,622,193	112,112	-	5,734,305
Furniture and equipment	233,075	89,160	-	322,235
Infrastructure	3,269,859	2,442,252	-	5,712,111
Land and site improvements	1,043,922	-	-	1,043,922
Machinery and equipment	<u>5,154,740</u>	<u>124,309</u>	<u>(34,161)</u>	<u>5,244,888</u>
Total depreciable capital assets	15,323,789	2,767,833	(34,161)	18,057,461
Accumulated depreciation	<u>(5,979,035)</u>	<u>(528,433)</u>	<u>33,308</u>	<u>(6,474,160)</u>
Depreciable capital assets, net	<u>9,344,754</u>	<u>2,239,400</u>	<u>(853)</u>	<u>11,583,301</u>
Governmental activities, capital assets, net	<u>\$ 9,607,034</u>	<u>\$ 2,250,205</u>	<u>\$ (853)</u>	<u>\$ 11,856,386</u>

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 5: CAPITAL ASSETS, CONTINUED

	<u>January 1, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>December 31, 2013</u>
Business-type activities:				
Nondepreciable capital assets				
Land	\$ 867,055	\$ 13,771	\$ -	\$ 880,826
Depreciable capital assets				
Buildings and improvements	4,550,565	15,234	-	4,565,799
Land improvements	3,331,550	-	-	3,331,550
Machinery and equipment	1,103,530	7,080	-	1,110,610
Sewer systems and plants	12,677,081	164,318	-	12,841,399
Water systems and plants	6,083,176	405,346	-	6,488,522
Total depreciable capital assets	27,745,902	591,978	-	28,337,880
Accumulated depreciation	(11,686,332)	(571,250)	-	(12,257,582)
Depreciable capital assets, net	16,059,570	20,728	-	16,080,298
Business-type activities, capital assets, net	<u>\$ 16,926,625</u>	<u>\$ 34,499</u>	<u>\$ -</u>	<u>\$ 16,961,124</u>
Component unit - DDA:				
Depreciable capital assets				
Land improvements	\$ 10,672	\$ -	\$ -	\$ 10,672
Machinery and equipment	28,815	-	-	28,815
Total depreciable capital assets	39,487	-	-	39,487
Accumulated depreciation	(16,988)	(5,506)	-	(22,494)
Depreciable capital assets, net	<u>\$ 22,499</u>	<u>\$ (5,506)</u>	<u>\$ -</u>	<u>\$ 16,993</u>

Depreciation expense was charged to functions as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Component Unit - DDA</u>
General government	\$ 84,195	\$ -	\$ -
Public safety	37,798	-	-
Public works	327,045	-	-
Health and welfare	4,940	-	-
Community and economic development	1,179	-	5,506
Recreation and culture	73,276	-	-
Sewer	-	247,012	-
Water	-	207,937	-
Marina	-	112,143	-
Cartier Park Campground	-	4,158	-
	<u>\$ 528,433</u>	<u>\$ 571,250</u>	<u>\$ 5,506</u>

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 6: DEFERRED OUTFLOW OF RESOURCES

In 2005, the City of Ludington issued general obligation bonds of \$2,135,000 to advance refund \$1,940,000 of general obligation bonds that were issued in 2000. The City incurred expenses/charges on the refunding transaction which are being amortized and recognized annually as expense over the life of the bonds based on the amount of interest paid per year as a percentage of total interest. The unamortized deferred charge from refunding the debt is recorded on the statement of net position as a deferred outflow of resources.

	<u>Balance</u>	<u>2013</u>	<u>Balance</u>
	<u>January 1,</u>	<u>Amortization</u>	<u>December 31,</u>
	<u>2013</u>	<u>of Deferred</u>	<u>2013</u>
		<u>Charge</u>	
Unamortized deferred charges from refunding of debt	\$ 63,692	\$ 15,052	\$ 48,640

NOTE 7: UNEARNED REVENUE

Governmental and proprietary funds report unearned revenue in connection with resources that have been received but not yet earned. At the end of the current year, the various components of unearned revenue are as follows:

	<u>Primary</u>	<u>Component</u>
	<u>Government</u>	<u>Unit</u>
Boat slip rentals	\$ 93,147	\$ -
Grants/Donations	57,655	-
Special assessments	2,640	-
Other	305	500
	<u>\$ 153,747</u>	<u>\$ 500</u>

NOTE 8: LONG-TERM LIABILITIES

The City may issue bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds and contract financing are direct obligations and pledge the full faith and credit of the City. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service. Other long-term liabilities include compensated absences and net OPEB obligation.

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 8: LONG-TERM LIABILITIES, CONTINUED

Long-term obligation activity for the year ended December 31, 2013 is summarized as follows:

	<u>January 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31, 2013</u>	<u>Due Within One Year</u>
Governmental Activities:					
2005 Building Authority Refunding Bonds for \$2,135,000, with annual payments ranging from \$175,000- 285,000 at 3.50-4.00% interest; Maturing through August 1, 2019	\$1,670,000	\$ -	\$ (195,000)	\$ 1,475,000	\$ 210,000
2013 Copier/Printer Contract Payable for \$89,160, with monthly payments of \$1,486 at 0.00% interest; Maturing June 2018	-	89,160	(8,755)	80,405	17,832
Compensated absences	108,107	-	(13,821)	94,286	-
Net OPEB obligation	<u>107,206</u>	<u>24,598</u>	<u>-</u>	<u>131,804</u>	<u>-</u>
Total Governmental Activities	<u>\$1,885,313</u>	<u>\$ 113,758</u>	<u>\$ (217,576)</u>	<u>\$ 1,781,495</u>	<u>\$ 227,832</u>
Business-type Activities:					
2007 Sewage Disposal System Junior Lien Revenue Bonds for \$1,500,000, with annual payments ranging from \$65,000-85,000 at 1.625% interest; Maturing through October 1, 2027	\$1,170,000	\$ -	\$ (70,000)	\$ 1,100,000	\$ 70,000
Compensated absences	43,715	-	(2,862)	40,853	-
Net OPEB obligation	<u>19,582</u>	<u>120</u>	<u>-</u>	<u>19,702</u>	<u>-</u>
Total Business-type Activities	<u>\$1,233,297</u>	<u>\$ 120</u>	<u>\$ (72,862)</u>	<u>\$ 1,160,555</u>	<u>\$ 70,000</u>

Annual debt service requirements to maturity for the above obligations (excluding compensated absences and net OPEB obligation) are as follows:

<i>Year Ended</i>	<i>Governmental Activities</i>			<i>Business-type Activities</i>		
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
<i>December 31,</i>						
2014	\$ 227,832	\$ 57,515	\$ 285,347	\$ 70,000	\$ 17,874	\$ 87,874
2015	242,832	49,115	291,947	70,000	16,738	86,738
2016	257,832	40,115	297,947	75,000	15,600	90,600
2017	267,832	31,235	299,067	75,000	14,382	89,382
2018	274,077	21,735	295,812	75,000	13,162	88,162
2019-2023	285,000	11,400	296,400	395,000	47,044	442,044
2024-2027	-	-	-	340,000	13,814	353,814
	<u>\$ 1,555,405</u>	<u>\$ 211,115</u>	<u>\$ 1,766,520</u>	<u>\$ 1,100,000</u>	<u>\$ 138,614</u>	<u>\$ 1,238,614</u>

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 8: LONG-TERM LIABILITIES, CONTINUED

The City has installment purchase contracts payable to West Shore Bank and Fifth Third Bank. The balance owed on these contracts as of December 31, 2013 is \$550,536. These liabilities were incurred for the purchase of a fire truck and equipment for the Western Mason County Fire Authority (a joint venture). The fire truck and equipment, as well as the corresponding liabilities, have been assigned to the Authority and are not included in the financial statements of the City.

NOTE 9: DISAGGREGATED RECEIVABLE AND PAYABLE BALANCES

Receivables and payables as of year end for the City's primary government and component unit are as follows:

	<i>Primary Government</i>			<i>Component Unit</i>
	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Total</i>	
Receivables:				
Property taxes	\$ 3,737,545	\$ -	\$ 3,737,545	\$ 111,196
Accounts	104,477	656,382	760,859	2,364
Special assessments	3,541	-	3,541	-
Notes	5,207	-	5,207	-
Accrued interest	2,314	1,084	3,398	68
Intergovernmental	<u>427,561</u>	<u>40,608</u>	<u>468,169</u>	<u>-</u>
Total receivables	<u>\$ 4,280,645</u>	<u>\$ 698,074</u>	<u>\$ 4,978,719</u>	<u>\$ 113,628</u>
Accounts payable and accrued expenses:				
Accounts	\$ 328,943	\$ 128,427	\$ 457,370	\$ 10,991
Payroll liabilities	114,774	39,126	153,900	-
Deposits payable	26,849	4,900	31,749	-
Accrued interest	23,964	-	23,964	-
Intergovernmental	<u>3,995</u>	<u>-</u>	<u>3,995</u>	<u>56</u>
Total accounts payable and accrued expenses	<u>\$ 498,525</u>	<u>\$ 172,453</u>	<u>\$ 670,978</u>	<u>\$ 11,047</u>

NOTE 10: INTERFUND TRANSFERS

The composition of interfund transfers at December 31, 2013 is as follows reported in the fund financial statements:

<i>Funds Transferred From</i>	<i>Funds Transferred To</i>	<i>Amount</i>
General Fund	Nonmajor Governmental Funds	\$ 410,938
Marina Fund	General Fund	973

The above transfers were either to (1) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, or (2) use unrestricted revenues collected in the various funds to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 11: RISK MANAGEMENT

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation) and certain medical benefits provided to employees.

The City manages its liability, property, and worker's compensation risk by participating in Michigan Municipal Risk Management Authority, a public entity risk pool providing property, liability, and worker compensation coverage to its participating members. The City pays an annual premium to Michigan Municipal Risk Management Authority for its insurance coverage. The Michigan Municipal Risk Management Authority is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence-based property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years.

NOTE 12: EMPLOYEE RETIREMENT PLANS

The City has two employee pension plans. One is a defined benefit pension plan administered by the MERS Retirement Board. The other is a police defined benefit pension plan administered by the City. Information concerning each plan follows:

Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System):

Plan Description – The City contributes to the Michigan Municipal Employees' Retirement System, an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for governmental units in the State of Michigan. The system provides the following: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and postretirement adjustments to plan members and their beneficiaries. All full-time employees, except policemen, are eligible to participate in the plan. Benefits vest after 10 years of service. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.5 percent of 5-year final average compensation (FAC) (if hired before June 1, 2011) or 1.5 percent of 3-year FAC (if hired after June 1, 2011) with a maximum benefit of 80 percent of FAC. The most recent period of which actuarial data was available was for the year ended December 31, 2012.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 [MSA 5.333(a); MCLA 46.12 (a)], as amended, State of Michigan. MERS is regulated under Act No. 220 of the Public Acts of 1996, as emended, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy – The obligation to contribute to and maintain the system for these employees was established by negotiations with the City Council and personnel policy. Employees hired before June 1, 2011 (division 01) are not required to contribute to the plan and the City is required to contribute at an actuarially determined rate. Employees hired after June 1, 2011 (division 02) are required to contribute 5 percent to the plan and the City was required to contribute 4.93 percent. Employees' required contributions were \$5,156. The City's actuarially determined rate for division 01 was a fixed monthly rate of \$40,347 based on the December 31, 2011 valuation.

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 12: EMPLOYEE RETIREMENT PLANS, CONTINUED

Annual Pension Costs – For year ended December 31, 2013, the City’s annual pension cost of \$489,247 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2011, using the entry actual age cost method. Significant actuarial assumption used include: (i) an 8% investment rate of return; (ii) projected salary increases of 4.5% per year; and (iii) 2.5% per year cost of living adjustments. All are determined using techniques that smooth the effects of short-term volatility over a four year period. The unfunded actuarial liability is being amortized at a level percent of payroll on a closed basis. The remaining amortization period is 26 years.

Three year trend information as of December 31, follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Annual pension cost	\$ 489,247	\$ 452,171	\$ 444,060
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

Funded Status – As of December 31, 2012, the most recent actuarial valuation date, the plan was 75 percent funded. The actuarial accrued liability for benefits was \$17,194,965, and the actuarial value of assets was \$12,961,775, resulting in an unfunded actuarial accrued liability (UAAL) of \$4,233,190. The covered payroll (annual payroll of active employees covered by the plan) was \$1,982,367, and the ratio of the UAAL to the covered payroll was 211 percent. The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

City of Ludington Police Defined Benefit Retirement System:

Plan Description - The City also operates the City of Ludington Police Retirement System; a single-employer retirement plan established under Act 345, PA of 1937 of the State of Michigan. The plan covers all full-time police employees of the City and is funded through an annual tax levy. The plan is a part of the City of Ludington reporting entity and its financial statements are included in the City's Statement of Net Position for Fiduciary Funds.

Membership in the plan consisted of the following at December 31, 2012 (most recent actuarial valuation date):

Retirees and Beneficiaries receiving benefits	13
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>14</u>
Total	<u>27</u>

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 12: EMPLOYEE RETIREMENT PLANS, CONTINUED

The City of Ludington Police Retirement System provides retirement benefits as well as death, disability, and health benefits. All benefits vest after 10 years of credited service. Employees who retire after 25 years of credited service are entitled to an annual retirement benefit, payable monthly, in an amount equal to 2.7% of 3-year final average compensation (FAC) times first 25 years of service plus 1% of FAC times years of service in excess of 25 years. If an employee leaves covered employment or dies before ten years of credited service, accumulated employee contributions plus related investment earnings are refunded to the employee or designated beneficiary.

Summary of Significant Accounting Policies and Asset Matters - The financial statements of the City of Ludington Police Retirement System are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employee services are performed.

Method Used to Value Investments - Investments of the plan are reported at fair value based on provided market values. Investment income is recognized as earned. The net appreciation in the fair value of investments is recognized as additions to assets. Gains and losses on the sale of securities are recognized on the transaction date. The plan's cash and investments at December 31, 2013 were as follows:

	<u>Fair Value</u>
Cash and cash equivalents	\$ 170,396
Investments - mutual funds	<u>4,498,304</u>
	<u>\$ 4,668,700</u>

Contributions - The obligation to contribute to the system for the police employees was established by negotiations between the City Council and the police bargaining unit (union contract). The contract requires the employees to contribute to the plan at a rate of 6% of eligible payroll. The City is required to contribute based on a property tax levy of 1.1501 mills.

For the year ended December 31, 2013, the City made contributions of \$289,155 and the police employees contributed \$51,606.

Three year trend information as of December 31 follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Annual pension cost	\$ 289,155	\$ 282,184	\$ 270,508
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

Funded Status - As of December 31, 2012, the most recent actuarial valuation date, the plan was 67 percent funded. The actuarial accrued liability for benefits was \$6,027,237, and the actuarial value of assets was \$4,014,756, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,012,481. The covered payroll (annual payroll of active employees covered by the plan) was \$832,173, and the ratio of the UAAL to the covered payroll was 242 percent. The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 12: EMPLOYEE RETIREMENT PLANS, CONTINUED

Deferred Compensation Plan:

The City offers its employees a deferred compensation plan created in accordance with IRC Section 457. The plan, available to all employees, permits them to defer a portion of their current salary until future years.

The City adopted GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. The City has placed all Deferred Compensation Plan assets with a trustee, relinquishing all fiduciary accountability for the assets. Accordingly, the related assets and liabilities of the plan are not reported in the City's financial statements.

NOTE 13: OTHER POSTEMPLOYMENT BENEFITS

Plan Description – The City provides retiree healthcare benefits to eligible employees upon retirement in accordance with labor contracts and other City personnel policies. The City provides police union personnel with partial payment toward the cost of health insurance after they qualify to retire and are retired from City employment. The City pays 50% of the health insurance cost up to a maximum of \$200 per month for those retired after 1993. Those who retired between 1989 through 1993 receive a maximum paid benefit of \$100 per month. The benefit continues to the eligible surviving spouse. General non-union and SEIU union personnel, if retired with 20 or more years of service, will receive \$100 to \$200 per month. The City Clerk and Treasurer, who retire with 25 or more years of service, will receive a maximum paid benefit of \$250 per month for life, and continues to the eligible surviving spouse.

Funding Policy – The City has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a “pay-as-you-go” basis). The City has made no contributions in advance. At the fund level, the expense is recognized by the City as the payments to the employees are made. During the year, this amounted to \$41,612.

Annual Required Contribution Funding – As of January 1, 2013, the City obtained an actuarial valuation to estimate the cost of providing retiree healthcare benefits. The actuarial valuation computed an annual required contribution that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

Actuarial Methods and Assumptions – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. In future years, the schedule of funding progress will present multiyear trend information about whether the actuarial value of assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 13: OTHER POSTEMPLOYMENT BENEFITS, CONTINUED

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

In the January 1, 2013 calculation, the entry age actuarial cost method was used. The actuarial assumptions included a 4 percent investment rate of return. The UAAL, for purposes of calculating the annual required contribution (ARC), is being amortized as a level percent of payroll over 30 years.

The computed annual required contribution and actual funding are summarized as follows:

For the year ended December 31, 2013:

Annual required contribution (recommended)	\$ 68,743
Interest on the prior year's net OPEB obligation	5,071
Less adjustment to the annual required contribution	<u>(7,483)</u>
Annual OPEB cost	66,331
Amounts contributed:	
Payments of current premiums	(41,612)
Advance funding	<u>-</u>
Increase in net OPEB obligation	24,719
OPEB obligation, beginning of year	<u>126,787</u>
OPEB obligation, end of year	<u><u>\$ 151,506</u></u>

The OPEB obligation is recorded as follows:

Governmental activities	\$ 131,804
Business-type activities	<u>19,702</u>
Total	<u><u>\$ 151,506</u></u>

The annual OPEB cost, the contribution, the percentage contributed to the plan, and the net OPEB obligation for the current and two preceding years were as follows:

<i>Year Ending</i>	<i>Actuarial Valuation Date</i>	<i>Annual OPEB Cost</i>	<i>Contribution</i>	<i>Percentage Contributed</i>	<i>Net OPEB Obligation</i>
12/31/13	1/1/13	\$ 66,331	\$ 41,612	63%	\$ 151,506
12/31/12	1/1/10	79,816	39,250	49%	126,787
12/31/11	1/1/10	78,369	42,150	54%	86,221

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE 13: OTHER POSTEMPLOYMENT BENEFITS, CONTINUED

Funding Progress – As of January 1, 2013, which is the most recent actuarial valuation, the actuarial accrued liability for benefits was \$783,757, all of which was unfunded. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

NOTE 14: FUND BALANCES

Fund balances are classified as Nonspendable, Restricted, Committed, Assigned or Unassigned. The classifications are described in Note 1. The following illustrates the segregation of fund balances of the governmental funds shown on page 15.

	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Nonmajor</u>	<u>Total</u>
Fund balances:				
Nonspendable:				
Inventory	\$ 12,510	\$ 47,185	\$ -	\$ 59,695
Prepaid expenditures	98,257	1,735	4,475	104,467
Long-term receivables	-	-	5,207	5,207
Restricted for:				
Streets	-	332,416	232,710	565,126
Senior center activities	-	-	52,163	52,163
Debt service	-	-	2	2
Contamination cleanup activities	-	-	-	-
Committed to:				
Recreation activities	-	-	59,107	59,107
Downtown building rehab	-	-	89,189	89,189
Cemetery capital improvements	-	-	197,216	197,216
Assigned to:				
Waterfront playground equipment	9,184	-	-	9,184
Unassigned	<u>1,463,609</u>	<u>-</u>	<u>-</u>	<u>1,463,609</u>
Total fund balances	<u>\$ 1,583,560</u>	<u>\$ 381,336</u>	<u>\$ 640,069</u>	<u>\$ 2,604,965</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LUDINGTON

SCHEDULE OF PENSION PLANS FUNDING PROGRESS

Year Ended December 31, 2013

Schedule of Pension Plan Funding Progress - General:

<u>Actuarial Valuation Date</u>	<u>12/31/12</u>	<u>12/31/11</u>	<u>12/31/10</u>
Actuarial Value of Assets	\$ 12,961,775	\$ 12,956,687	\$ 12,893,316
Actuarial Accrued Liability (AAL)	17,194,965	16,858,140	16,153,327
Unfunded AAL (UAAL)	4,233,190	3,901,453	3,260,011
Funded Ratio	75%	77%	80%
Covered Payroll	2,008,700	1,982,367	1,977,617
UAAL as a percentage of covered payroll	211%	197%	165%

Schedule of Pension Plan Funding Progress - Police:

<u>Actuarial Valuation Date</u>	<u>12/31/12</u>	<u>12/31/11</u>	<u>12/31/10</u>
Actuarial Value of Assets	\$ 4,014,756	\$ 3,728,233	\$ 3,725,972
Actuarial Accrued Liability (AAL)	6,027,237	5,962,895	5,982,747
Unfunded AAL (UAAL)	2,012,481	2,234,662	2,256,775
Funded Ratio	67%	63%	62%
Covered Payroll	832,173	745,397	854,278
UAAL as a percentage of covered payroll	242%	300%	264%

SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS FUNDING PROGRESS

Schedule of Other Postemployment Benefits Funding Progress:

<u>Actuarial Valuation Date</u>	<u>1/1/13</u>	<u>1/1/10</u>	<u>1/1/07</u>
Actuarial Value of Assets	\$ -	\$ -	\$ -
Actuarial Accrued Liability (AAL)	783,757	959,967	879,686
Unfunded AAL (UAAL)	783,757	959,967	879,686
Funded Ratio	0%	0%	0%
Covered Payroll	N/A	N/A	N/A
UAAL as a percentage of covered payroll	N/A	N/A	N/A

CITY OF LUDINGTON

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2013

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Actual</i>
	<i>Original</i>	<i>Final</i>		<i>Over (Under)</i>
				<i>Final Budget</i>
Revenues:				
Property taxes	\$ 3,673,300	\$ 3,679,200	\$ 3,661,987	\$ (17,213)
Licenses and permits	101,500	108,000	116,638	8,638
Federal grants	25,000	76,874	93,581	16,707
State grants	692,600	736,900	738,069	1,169
Contributions from other units	48,500	48,500	52,944	4,444
Charges for services	586,900	610,400	584,727	(25,673)
Fines and forfeits	34,000	41,300	41,312	12
Interest and rents	32,400	32,400	20,539	(11,861)
Other revenue	98,900	137,300	141,700	4,400
Total revenues	5,293,100	5,470,874	5,451,497	(19,377)
Expenditures:				
Current				
General government	1,347,000	1,623,081	1,620,458	(2,623)
Public safety	1,678,000	1,729,374	1,727,441	(1,933)
Public works	1,304,400	1,224,600	1,223,096	(1,504)
Community and economic development	97,400	80,500	80,269	(231)
Recreation and culture	483,300	576,400	576,121	(279)
Other	42,000	39,800	39,713	(87)
Debt service				
Principal	-	8,900	8,755	(145)
Total expenditures	4,952,100	5,282,655	5,275,853	(6,802)
Excess (deficiency) of revenues over expenditures	341,000	188,219	175,644	(12,575)
Other financing sources (uses):				
Contract financing	-	89,100	89,160	60
Transfers from (to) other funds	(428,900)	(429,300)	(409,965)	19,335
Change in fund balance	(87,900)	(151,981)	(145,161)	6,820
Fund balance, beginning of year	1,728,721	1,728,721	1,728,721	-
Fund balance, end of year	\$ 1,640,821	\$ 1,576,740	\$ 1,583,560	\$ 6,820

CITY OF LUDINGTON

MAJOR STREET FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2013

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Actual</i>
	<i>Original</i>	<i>Final</i>		<i>Over (Under)</i>
				<i>Final Budget</i>
Revenues:				
State grants	\$ 455,600	\$ 461,176	\$ 460,582	\$ (594)
State grants - MDOT pass through	2,115,300	2,128,392	2,128,392	-
Interest and rents	2,900	2,900	2,278	(622)
Other revenue	-	5,600	6,854	1,254
Total revenues	<u>2,573,800</u>	<u>2,598,068</u>	<u>2,598,106</u>	<u>38</u>
Expenditures:				
Current				
Public works	339,900	289,583	289,583	-
Capital outlay	160,300	260,693	260,693	-
Capital outlay - MDOT pass through	<u>2,226,700</u>	<u>2,128,392</u>	<u>2,128,392</u>	<u>-</u>
Total expenditures	<u>2,726,900</u>	<u>2,678,668</u>	<u>2,678,668</u>	<u>-</u>
Change in fund balance	(153,100)	(80,600)	(80,562)	38
Fund balance, beginning of year	<u>461,898</u>	<u>461,898</u>	<u>461,898</u>	<u>-</u>
Fund balance, end of year	<u>\$ 308,798</u>	<u>\$ 381,298</u>	<u>\$ 381,336</u>	<u>\$ 38</u>

OTHER SUPPLEMENTARY INFORMATION

CITY OF LUDINGTON

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET

December 31, 2013

	<i>Special Revenue Funds</i>				
	<i>Local Street Fund</i>	<i>Recreation Fund</i>	<i>Senior Center Fund</i>	<i>Building Rehab Fund</i>	<i>Cemetery Capital Improvement Fund</i>
Assets:					
Cash and investments	\$ 217,532	\$ 56,607	\$ 58,370	\$ 114,394	\$ 197,135
Accounts receivable	-	-	-	2	-
Notes receivable	-	-	-	5,207	-
Accrued interest receivable	88	23	25	-	81
Due from other governmental units	25,354	8,130	-	151,785	-
Prepaid expenditures	1,834	1,458	1,183	-	-
Total assets	<u>\$ 244,808</u>	<u>\$ 66,218</u>	<u>\$ 59,578</u>	<u>\$ 271,388</u>	<u>\$ 197,216</u>
Liabilities and Fund Balances:					
Liabilities:					
Accounts payable	\$ 3,287	\$ 3,639	\$ 1,622	\$ 123,996	\$ -
Accrued expenses	6,977	2,014	3,610	-	-
Due to other governmental units	-	-	-	3,486	-
Due to other funds	-	-	-	49,510	-
Unearned revenue	-	-	1,000	-	-
Total liabilities	<u>10,264</u>	<u>5,653</u>	<u>6,232</u>	<u>176,992</u>	<u>-</u>
Fund balances:					
Nonspendable:					
Prepaid expenditures	1,834	1,458	1,183	-	-
Long-term receivables	-	-	-	5,207	-
Restricted for:					
Streets	232,710	-	-	-	-
Senior center activities	-	-	52,163	-	-
Debt service	-	-	-	-	-
Committed for:					
Recreation activities	-	59,107	-	-	-
Downtown building rehab	-	-	-	89,189	-
Cemetery capital improvements	-	-	-	-	197,216
Total fund balances	<u>234,544</u>	<u>60,565</u>	<u>53,346</u>	<u>94,396</u>	<u>197,216</u>
Total liabilities and fund balances	<u>\$ 244,808</u>	<u>\$ 66,218</u>	<u>\$ 59,578</u>	<u>\$ 271,388</u>	<u>\$ 197,216</u>

<i>Debt Service Fund</i>	<i>Capital Projects Funds</i>			
<i>Building Authority Bond Fund</i>	<i>W. Ludington Avenue Project Fund</i>	<i>Watchcase Contamination Fund</i>	<i>Total</i>	
\$ 2	\$ 51,020	\$ -	\$ 695,060	
-	-	-	2	
-	-	-	5,207	
-	-	-	217	
-	-	-	185,269	
-	-	-	4,475	
<u>\$ 2</u>	<u>\$ 51,020</u>	<u>\$ -</u>	<u>\$ 890,230</u>	
\$ -	\$ -	\$ -	\$ 132,544	
-	-	-	12,601	
-	-	-	3,486	
-	-	-	49,510	
-	51,020	-	52,020	
-	51,020	-	250,161	
-	-	-	4,475	
-	-	-	5,207	
-	-	-	232,710	
-	-	-	52,163	
2	-	-	2	
-	-	-	59,107	
-	-	-	89,189	
-	-	-	197,216	
<u>2</u>	<u>-</u>	<u>-</u>	<u>640,069</u>	
<u>\$ 2</u>	<u>\$ 51,020</u>	<u>\$ -</u>	<u>\$ 890,230</u>	

CITY OF LUDINGTON

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended December 31, 2013

	<i>Special Revenue Funds</i>				
	<i>Local Street Fund</i>	<i>Recreation Fund</i>	<i>Senior Center Fund</i>	<i>Building Rehab Fund</i>	<i>Cemetery Capital Improvement Fund</i>
Revenues:					
Federal grants	\$ -	\$ -	\$ 12,710	\$ 361,756	\$ -
State grants	209,169	-	-	-	-
Contributions from other units	-	47,053	147,700	-	-
Charges for services	-	38,039	4,337	-	-
Interest and rents	1,234	396	266	1	1,171
Other revenue	-	16,369	11,525	-	8,100
Total revenues	<u>210,403</u>	<u>101,857</u>	<u>176,538</u>	<u>361,757</u>	<u>9,271</u>
Expenditures:					
Current					
Public works	364,043	-	-	-	-
Health and welfare	-	-	170,411	-	-
Community and economic development	-	-	-	360,036	-
Recreation and culture	-	151,739	-	-	-
Capital outlay	-	8,248	-	-	-
Debt service					
Principal	-	-	-	-	-
Interest and fees	-	-	-	-	-
Total expenditures	<u>364,043</u>	<u>159,987</u>	<u>170,411</u>	<u>360,036</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>(153,640)</u>	<u>(58,130)</u>	<u>6,127</u>	<u>1,721</u>	<u>9,271</u>
Other financing sources (uses):					
Transfers from (to) other funds	128,600	42,000	-	-	(20,402)
Changes in fund balances	(25,040)	(16,130)	6,127	1,721	(11,131)
Fund balances, beginning of year	<u>259,584</u>	<u>76,695</u>	<u>47,219</u>	<u>92,675</u>	<u>208,347</u>
Fund balances, end of year	<u>\$ 234,544</u>	<u>\$ 60,565</u>	<u>\$ 53,346</u>	<u>\$ 94,396</u>	<u>\$ 197,216</u>

<i>Debt Service Fund</i>	<i>Capital Projects Funds</i>		
<i>Building Authority Bond Fund</i>	<i>W. Ludington Avenue Project Fund</i>	<i>Watchcase Contamination Fund</i>	<i>Total</i>
\$ -	\$ -	\$ -	\$ 374,466
-	-	-	209,169
-	-	-	194,753
-	-	-	42,376
-	-	-	3,068
-	-	-	35,994
-	-	-	859,826
-	-	-	364,043
-	-	-	170,411
-	-	7,409	367,445
-	-	-	151,739
-	-	-	8,248
195,000	-	-	195,000
65,315	-	-	65,315
260,315	-	7,409	1,322,201
(260,315)	-	(7,409)	(462,375)
260,315	-	425	410,938
-	-	(6,984)	(51,437)
2	-	6,984	691,506
\$ 2	\$ -	\$ -	\$ 640,069

CITY OF LUDINGTON

INTERNAL SERVICE FUNDS

COMBINING STATEMENT OF NET POSITION

December 31, 2013

	<u>Motor Pool</u> <u>Fund</u>	<u>Technology</u> <u>Fund</u>	<u>Total</u>
Assets:			
Current assets:			
Cash and investments	\$ 147,399	\$ -	\$ 147,399
Accounts receivable	14,399	-	14,399
Accrued interest receivable	57	-	57
Due from other governmental units	1,392	-	1,392
Inventory	78,974	-	78,974
Prepaid expenses	36,109	240	36,349
Total current assets	<u>278,330</u>	<u>240</u>	<u>278,570</u>
Noncurrent assets:			
Capital assets:			
Nondepreciable capital assets	4,250	-	4,250
Depreciable capital assets, net	<u>2,731,289</u>	<u>67,711</u>	<u>2,799,000</u>
Total noncurrent assets	<u>2,735,539</u>	<u>67,711</u>	<u>2,803,250</u>
Total assets	<u>3,013,869</u>	<u>67,951</u>	<u>3,081,820</u>
Liabilities:			
Current liabilities:			
Accounts payable	46,111	512	46,623
Accrued expenses	6,607	-	6,607
Due to other funds	<u>-</u>	<u>22,710</u>	<u>22,710</u>
Total current liabilities	<u>52,718</u>	<u>23,222</u>	<u>75,940</u>
Noncurrent liabilities:			
Compensated absences payable	<u>6,351</u>	<u>-</u>	<u>6,351</u>
Total liabilities	<u>59,069</u>	<u>23,222</u>	<u>82,291</u>
Net position:			
Investment in capital assets	2,735,539	67,711	2,803,250
Unrestricted (deficit)	<u>219,261</u>	<u>(22,982)</u>	<u>196,279</u>
Total net position	<u>\$ 2,954,800</u>	<u>\$ 44,729</u>	<u>\$ 2,999,529</u>

CITY OF LUDINGTON

INTERNAL SERVICE FUNDS

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION Year Ended December 31, 2013

	<u>Motor Pool</u> <u>Fund</u>	<u>Technology</u> <u>Fund</u>	<u>Total</u>
Operating revenues:			
Equipment rental - interfund charges	\$ 778,070	\$ 116,377	\$ 894,447
Other	184,970	-	184,970
Total operating revenues	<u>963,040</u>	<u>116,377</u>	<u>1,079,417</u>
Operating expenses:			
Personnel	182,876	-	182,876
Fringe benefits	110,541	-	110,541
Supplies	357,005	43,747	400,752
Contracted services	23,736	46,363	70,099
Administrative expense	56,800	-	56,800
Telephone	2,040	-	2,040
Education and training	-	-	-
Insurance	57,754	-	57,754
Utilities	34,129	-	34,129
Repairs and maintenance	108,877	-	108,877
Equipment rental	3,426	-	3,426
Other services and supplies	155	-	155
Depreciation	188,995	17,490	206,485
Total operating expenses	<u>1,126,420</u>	<u>107,600</u>	<u>1,234,020</u>
Operating income (loss)	<u>(163,380)</u>	<u>8,777</u>	<u>(154,603)</u>
Non-operating revenues (expenses):			
Interest income	1,019	-	1,019
Net gain on sale/disposal of capital assets	14,361	-	14,361
Net non-operating revenues	<u>15,380</u>	<u>-</u>	<u>15,380</u>
Changes in net position	(148,000)	8,777	(139,223)
Net position, beginning of year	<u>3,102,800</u>	<u>35,952</u>	<u>3,138,752</u>
Net position, end of year	<u>\$ 2,954,800</u>	<u>\$ 44,729</u>	<u>\$ 2,999,529</u>

CITY OF LUDINGTON

INTERNAL SERVICE FUNDS

COMBINING STATEMENT OF CASH FLOWS

Year Ended December 31, 2013

	<i>Motor Pool Fund</i>	<i>Technology Fund</i>	<i>Total</i>
Cash flows from operating activities:			
Cash received from customers	\$ 182,543	\$ -	\$ 182,543
Cash received from interfund services	778,070	139,087	917,157
Cash payments to employees	(182,470)	-	(182,470)
Cash payments to suppliers for goods and services	(752,189)	(93,673)	(845,862)
Net cash provided (used) by operating activities	<u>25,954</u>	<u>45,414</u>	<u>71,368</u>
Cash flows from capital and related financing activities:			
Proceeds from sale/disposal of capital assets	15,214	-	15,214
Acquisition of capital assets	(64,817)	(34,761)	(99,578)
Net cash provided by capital and related financing activities	<u>(49,603)</u>	<u>(34,761)</u>	<u>(84,364)</u>
Cash flows from investing activities:			
Interest received	1,046	-	1,046
Net increase (decrease) in cash and investments	(22,603)	10,653	(11,950)
Cash and investments, beginning of year	170,002	(10,653)	159,349
Cash and investments, end of year	<u>\$ 147,399</u>	<u>\$ -</u>	<u>\$ 147,399</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (163,380)	\$ 8,777	\$ (154,603)
Adjustments:			
Depreciation	188,995	17,490	206,485
Change in assets and liabilities:			
Accounts receivable	(1,692)	-	(1,692)
Due from other governmental units	(735)	-	(735)
Inventory	11,013	-	11,013
Prepaid expenses	(566)	2,807	2,241
Accounts payable	(8,087)	(6,370)	(14,457)
Accrued expenses	1,036	-	1,036
Due to other funds	-	22,710	22,710
Compensated absences payable	(630)	-	(630)
Net cash provided (used) by operating activities	<u>\$ 25,954</u>	<u>\$ 45,414</u>	<u>\$ 71,368</u>

CITY OF LUDINGTON

GOVERNMENTAL ACTIVITIES

SCHEDULE OF INDEBTEDNESS

December 31, 2013

2005 BUILDING AUTHORITY REFUNDING BONDS

Issue in the amount of	\$ 2,135,000
Less: Principal paid in prior years	(465,000)
Principal paid in current year	<u>(195,000)</u>
Balance payable at December 31, 2013	<u>\$ 1,475,000</u>

Balance payable as follows:

<u>Year Ended</u>	<u>Interest Rate</u>	<u>Interest due February 1</u>	<u>Interest due August 1</u>	<u>Principal due August 1</u>	<u>Total Annual Requirement</u>
2014	4.00%	\$ 28,757	\$ 28,758	\$ 210,000	\$ 267,515
2015	4.00%	24,558	24,557	225,000	274,115
2016	3.70%	20,057	20,058	240,000	280,115
2017	3.80%	15,618	15,617	250,000	281,235
2018	3.90%	10,867	10,868	265,000	286,735
2019	4.00%	<u>5,700</u>	<u>5,700</u>	<u>285,000</u>	<u>296,400</u>
		<u>\$ 105,557</u>	<u>\$ 105,558</u>	<u>\$ 1,475,000</u>	<u>\$ 1,686,115</u>

CITY OF LUDINGTON

GOVERNMENTAL ACTIVITIES

SCHEDULE OF INDEBTEDNESS

December 31, 2013

2013 COPIER/PRINTER CONTRACT PAYABLE

Issue in the amount of	\$	89,160
Less: Principal paid in prior years		-
Principal paid in current year		<u>(8,755)</u>
Balance payable at December 31, 2013	\$	<u>80,405</u>

Balance payable as follows:

<u>Year Ended</u>	<u>Interest Rate</u>	<u>Principal due</u>
2014	0.00%	\$ 17,832
2015	0.00%	17,832
2016	0.00%	17,832
2017	0.00%	17,832
2018	0.00%	<u>9,077</u>
		<u>\$ 80,405</u>

CITY OF LUDINGTON

BUSINESS-TYPE ACTIVITIES

SCHEDULE OF INDEBTEDNESS

December 31, 2013

2007 SEWAGE DISPOSAL SYSTEM JUNIOR LIEN REVENUE BONDS

Issue in the amount of	\$ 1,500,000
Less: Principal paid in prior years	(330,000)
Principal paid in current year	<u>(70,000)</u>
Balance payable at December 31, 2013	<u>\$ 1,100,000</u>

Balance payable as follows:

<u>Year Ended</u>	<u>Interest Rate</u>	<u>Interest due April 1</u>	<u>Interest due October 1</u>	<u>Principal due October 1</u>	<u>Total Annual Requirement</u>
2014	1.625%	\$ 8,937	\$ 8,937	\$ 70,000	\$ 87,874
2015	1.625%	8,369	8,369	70,000	86,738
2016	1.625%	7,800	7,800	75,000	90,600
2017	1.625%	7,191	7,191	75,000	89,382
2018	1.625%	6,581	6,581	75,000	88,162
2019	1.625%	5,972	5,972	75,000	86,944
2020	1.625%	5,363	5,363	80,000	90,726
2021	1.625%	4,712	4,712	80,000	89,424
2022	1.625%	4,063	4,063	80,000	88,126
2023	1.625%	3,412	3,412	80,000	86,824
2024	1.625%	2,763	2,763	85,000	90,526
2025	1.625%	2,072	2,072	85,000	89,144
2026	1.625%	1,381	1,381	85,000	87,762
2027	1.625%	691	691	85,000	86,382
		<u>\$ 69,307</u>	<u>\$ 69,307</u>	<u>\$ 1,100,000</u>	<u>\$ 1,238,614</u>



**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***

To the Honorable Mayor and Members of City Council
City of Ludington, 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, business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Ludington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City of Ludington's basic financial statements, and have issued our report thereon dated March 18, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

Purpose of this Report

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

Berthiaume & Co.

Saginaw, Michigan
March 18, 2014