

# **CITY OF LUDINGTON**

Mason County, Michigan

## **FINANCIAL STATEMENTS**

December 31, 2012

# 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, 2012, 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. 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, 2012, 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 Supplemental Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 4 through 11) and budgetary comparison information (pages 48 and 49) 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 supplemental 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 supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated in all material respects in relation to the 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 19, 2013 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.

*Bertchume & Co.*

Saginaw, Michigan  
March 19, 2013

***MANAGEMENT'S DISCUSSION AND ANALYSIS***

# CITY OF LUDINGTON

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2012. 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 assets of the City exceeded its liabilities at the close of the most recent year by \$30,334,116 (net position). Of this amount, \$4,825,410 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and others.

During the year, the City's total net position increased by \$442,075. Governmental activities increased by \$782,466, while business-type activities decreased by \$340,391.

At the end of the current year, the City's governmental funds reported combined ending fund balances of \$2,882,125, an increase of \$94,141 in comparison with prior year. Approximately 44 percent of this total or \$1,258,785 is nonspendable, restricted, committed or assigned. This leaves an unassigned fund balance \$1,623,340.

At the end of the current year, unassigned fund balance for the General Fund was \$1,623,340, or 31.93% of the General Fund's annual expenditures (including transfers). Total fund balance of the General Fund was \$1,728,721, or 34.01% of the General Fund's annual expenditures (including transfers).

### 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 supplemental information and other supplemental 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, in a manner similar to a private-sector business.

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

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

The government-wide financial statements can be found on pages 13 through 14 of this report.

# CITY OF LUDINGTON

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Fund Financial Statements

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

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

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

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

The City adopts an annual budget for each of its governmental funds. A budgetary comparison statement has been provided for the General Fund and Major Street Fund, the City's only major funds, to demonstrate compliance with that budget.

**Proprietary Funds** – The City maintains two different types of proprietary funds. Enterprise Funds are used to report the same functions as business-type activities in the government-wide financial statements. The City uses Enterprise Funds to account for sewage collection, water distribution, marina management and campground operations. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an Internal Service Fund to account for equipment rental charges and related expenses for motor pool and technology.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Sewer Fund, Water Fund, Marina Fund, and Cartier Park Campground Fund and totals for the Internal Service Funds. Individual fund data for each of the internal service funds is provided elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 19 through 24 of this report.

# CITY OF LUDINGTON

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

**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 those 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 supplemental information concerning the City.

The combining statements referred to earlier in connection with the nonmajor governmental funds and the internal service funds are presented following the required supplemental information.

### Government-wide Financial Analysis

#### **Statement of Net Position**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. For all activities of the City, assets exceeded liabilities by \$30,334,116 at the close of the most recent year. Most of this amount (78 percent) reflects the investment in capital assets (e.g., land, buildings, vehicles, equipment, and infrastructure) less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to its citizens; thus, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (6 percent) represents resources that are subject to external restrictions on how they are to be used. The remaining balance of unrestricted net position (16 percent) may be used to meet the government's ongoing obligations to citizens and others.

# CITY OF LUDINGTON

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

### City of Ludington's Net Position

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<b>Assets:</b>						
Current assets	\$ 7,344,352	\$ 7,021,008	\$ 2,734,917	\$ 3,210,735	\$ 10,079,269	\$ 10,231,743
Noncurrent assets:						
Restricted assets	-	-	1,096,017	1,056,017	1,096,017	1,056,017
Other assets	63,692	80,389	-	-	63,692	80,389
Capital assets	<u>9,607,034</u>	<u>9,151,209</u>	<u>16,926,624</u>	<u>16,780,789</u>	<u>26,533,658</u>	<u>25,931,998</u>
Total assets	<u>17,015,078</u>	<u>16,252,606</u>	<u>20,757,558</u>	<u>21,047,541</u>	<u>37,772,636</u>	<u>37,300,147</u>
<b>Liabilities:</b>						
Other liabilities	3,994,200	3,871,292	325,710	212,509	4,319,910	4,083,801
Long-term liabilities	<u>1,885,313</u>	<u>2,028,215</u>	<u>1,233,297</u>	<u>1,296,090</u>	<u>3,118,610</u>	<u>3,324,305</u>
Total liabilities	<u>5,879,513</u>	<u>5,899,507</u>	<u>1,559,007</u>	<u>1,508,599</u>	<u>7,438,520</u>	<u>7,408,106</u>
<b>Net assets:</b>						
Invested in capital assets, net of related debt	7,937,034	7,291,209	15,756,624	15,540,789	23,693,658	22,831,998
Restricted	719,031	933,556	1,096,017	1,056,017	1,815,048	1,989,573
Unrestricted	<u>2,479,500</u>	<u>2,128,334</u>	<u>2,345,910</u>	<u>2,942,136</u>	<u>4,825,410</u>	<u>5,070,470</u>
Total net position	<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>

# CITY OF LUDINGTON

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### City of Ludington's Changes in Net Position

	<i>Governmental</i>		<i>Business-type</i>		<i>Total</i>	
	<i>Activities</i>		<i>Activities</i>			
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<b>Revenues:</b>						
Program revenues						
Charges for services	\$ 1,203,656	\$ 1,024,206	\$ 3,862,154	\$ 3,480,908	\$ 5,065,810	\$ 4,505,114
Operating grants	922,542	1,175,032	-	-	922,542	1,175,032
Capital grants	360,000	412,925	828	-	360,828	412,925
General revenues						
Property taxes	3,589,078	3,717,651	-	-	3,589,078	3,717,651
Franchise fees	75,336	72,941	-	-	75,336	72,941
State revenue sharing	705,494	679,853	-	-	705,494	679,853
Investment earnings	46,400	45,237	16,209	30,931	62,609	76,168
Other	-	-	1,591	11,974	1,591	11,974
Total revenues	<u>6,902,506</u>	<u>7,127,845</u>	<u>3,880,782</u>	<u>3,523,813</u>	<u>10,783,288</u>	<u>10,651,658</u>
<b>Expenses:</b>						
General government	1,431,268	1,324,571	-	-	1,431,268	1,324,571
Public safety	1,554,070	1,565,834	-	-	1,554,070	1,565,834
Public works	2,058,543	2,302,584	-	-	2,058,543	2,302,584
Health and welfare	169,774	168,027	-	-	169,774	168,027
Community and economic development	175,477	502,347	-	-	175,477	502,347
Recreation and culture	653,584	643,696	-	-	653,584	643,696
Interest on long-term debt	86,169	94,106	-	-	86,169	94,106
Sewer	-	-	1,426,832	1,331,859	1,426,832	1,331,859
Water	-	-	1,717,045	1,575,699	1,717,045	1,575,699
Marina	-	-	905,799	802,978	905,799	802,978
Cartier Park Campground	-	-	170,282	146,369	170,282	146,369
Total expenses	<u>6,128,885</u>	<u>6,601,165</u>	<u>4,219,958</u>	<u>3,856,905</u>	<u>10,348,843</u>	<u>10,458,070</u>
Excess of revenues over expenses before other	<u>773,621</u>	<u>526,680</u>	<u>(339,176)</u>	<u>(333,092)</u>	<u>434,445</u>	<u>193,588</u>
<b>Other items:</b>						
Sale of capital assets	7,630	1,800	-	-	7,630	1,800
Transfers	1,215	675	(1,215)	(675)	-	-
Total other items	<u>8,845</u>	<u>2,475</u>	<u>(1,215)</u>	<u>(675)</u>	<u>7,630</u>	<u>1,800</u>
<b>Changes in net position</b>	<u>782,466</u>	<u>529,155</u>	<u>(340,391)</u>	<u>(333,767)</u>	<u>442,075</u>	<u>195,388</u>
Net position, beginning of year	<u>10,353,099</u>	<u>9,823,944</u>	<u>19,538,942</u>	<u>19,872,709</u>	<u>29,892,041</u>	<u>29,696,653</u>
Net position, end 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>

# CITY OF LUDINGTON

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

### City Funds Financial Analysis

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

The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as show accountability for certain activities. The City's major governmental funds are the General Fund and Major Street Fund. Additionally, the City reports the Sewer, Water, and Marina funds as major enterprise funds.

The General Fund accounts for functions relating to the general government activities of the City, which are financed by property tax levies, distribution of State revenues, and fees charged for various municipal activities and services. Fund balance of the General Fund increased \$332,390 in 2012. The City Council adopted a policy to retain an unassigned fund balance in the General Fund equal to 20% of its annual expenditures budget and to annually commit any excess fund balance to capital improvements, which will be used on improvements to the City's infrastructure. The unassigned fund balance is 32% of the General Fund's annual expenditures for 2012. However, the City Council has elected at this time to not commit these funds to capital improvements in anticipation of possible changes in the law eliminating personal property tax revenue and the uncertainty of any replacement revenue.

The Sewer Fund covers the operations of the sewage treatment plant and the maintenance and construction of the sewer distribution system.

The Water Fund finances the operations of the water treatment plant and the entire transmission and distribution system.

The Marina Fund finances the operations of the marina.

### **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 City originally budgeted that General Fund expenditures would exceed General Fund revenues by \$33,700. The actual results were such that General Fund revenues exceeded expenditures by approximately \$332,400.

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

- Building permit revenue increased \$41,644 over the budgeted amount due to the hospital expansion project.
- Revenue sharing (constitutional and EVIP) increased \$89,340 over the budgeted amount.
- Consumers Energy issued a refund of \$112,700 for past billings for electrical costs for streetlighting that were not the City's responsibility.
- Interest income increased \$8,505 over the budgeted amount due to a higher cash balance in the General Fund.
- The City received a dividend check from its liability insurer of \$47,139 that had not been budgeted.
- The City received donations of \$31,500 toward the new Police Department Digital Evidence Lab.

# CITY OF LUDINGTON

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

- Spent \$15,560 more than budgeted for building inspection services due to the local hospital expansion project.
- Spent \$17,866 more than budgeted on electrical repairs and sidewalk repairs in the downtown district to reduce trip-and-fall claims filed against the City.
- Spent \$25,440 to construct the new Police Department Digital Evidence Lab.
- Spent \$18,206 less than budgeted on electrical costs for streetlighting.

### Capital Assets and Debt Administration

**Capital Assets** – The City's investment in capital assets for governmental and business-type activities as of December 31, 2012 amounts to \$26,533,658 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings and improvements, vehicles, furniture and equipment, infrastructure, systems, and sidewalks. Governmental activities included additions of approximately \$943,000 in buildings/improvements, infrastructure and machinery and equipment. Business-type activities included additions of approximately \$705,000 in water tower improvements, land improvements, various machinery and equipment additions, and system improvements.

**Debt** – At the end of the current year, the City had total long-term debt outstanding, excluding compensated absences and net OPEB obligations, of \$2,840,000. Of this amount, \$1,670,000 comprises debt backed by the full faith and credit of the government. The remaining of the City's debt \$1,170,000 is backed solely by specified revenue sources.

### 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, retirement costs, utility costs and fuel expenses.

The City has approved a budget for 2013 using \$87,900 of the Fund Balance. Because of the uncertainty given the current economic environment, the City completed a three-year financial projection through the year 2015 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 2013 and 2014 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 2014 budget.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **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, 2012

	<i>Primary Government</i>			<i>Component Unit</i>
	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Total</i>	
<b>Assets:</b>				
Cash and investments	\$ 2,717,186	\$ 2,083,152	\$ 4,800,338	\$ 118,295
Receivables	4,082,211	626,015	4,708,226	122,618
Internal balances	260,519	(260,519)	-	-
Inventory	155,481	211,108	366,589	-
Prepaid expenses	128,955	75,161	204,116	1,100
Restricted cash and investments	-	1,096,017	1,096,017	-
Capital assets:				
Nondepreciable capital assets	262,280	867,055	1,129,335	-
Depreciable capital assets, net	9,344,754	16,059,569	25,404,323	22,499
Deferred charges	63,692	-	63,692	-
<b>Total assets</b>	<b>17,015,078</b>	<b>20,757,558</b>	<b>37,772,636</b>	<b>264,512</b>
<b>Liabilities:</b>				
Accounts payable and accrued expenses	300,907	227,115	528,022	5,164
Deferred revenue	3,693,293	98,595	3,791,888	107,566
Long-term liabilities:				
Due within one year	195,000	70,000	265,000	-
Due in more than one year	1,690,313	1,163,297	2,853,610	-
<b>Total liabilities</b>	<b>5,879,513</b>	<b>1,559,007</b>	<b>7,438,520</b>	<b>112,730</b>
<b>Net position:</b>				
Invested in capital assets, net of related debt	7,937,034	15,756,624	23,693,658	11,951
Restricted for:				
Debt service	2	180,000	180,002	-
Equipment replacement	-	916,017	916,017	-
Contamination cleanup activities	6,984	-	6,984	-
Senior center activities	45,428	-	45,428	-
Streets	666,617	-	666,617	-
Unrestricted	2,479,500	2,345,910	4,825,410	139,831
<b>Total net position</b>	<b>\$ 11,135,565</b>	<b>\$ 19,198,551</b>	<b>\$ 30,334,116</b>	<b>\$ 151,782</b>

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

# CITY OF LUDINGTON

## STATEMENT OF ACTIVITIES Year Ended December 31, 2012

	<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>	
<b>Functions/Programs</b>					
<b>PRIMARY GOVERNMENT:</b>					
<i>Governmental activities:</i>					
General government	\$ 1,431,268	\$ 576,442	\$ 31,479	\$ -	\$ (823,347)
Public safety	1,554,070	149,691	48,478	-	(1,355,901)
Public works	2,058,543	353,211	618,798	360,000	(726,534)
Health and welfare	169,774	6,205	147,216	-	(16,353)
Community and economic development	175,477	13,009	18,123	-	(144,345)
Recreation and culture	653,584	105,098	58,448	-	(490,038)
Interest on long-term debt	86,169	-	-	-	(86,169)
Total governmental activities	<u>6,128,885</u>	<u>1,203,656</u>	<u>922,542</u>	<u>360,000</u>	<u>(3,642,687)</u>
<i>Business-type activities:</i>					
Sewer	1,426,832	1,366,047	-	828	(59,957)
Water	1,717,045	1,479,081	-	-	(237,964)
Marina	905,799	806,334	-	-	(99,465)
Cartier Park Campground	170,282	210,692	-	-	40,410
Total business-type activities	<u>4,219,958</u>	<u>3,862,154</u>	<u>-</u>	<u>828</u>	<u>(356,976)</u>
Total primary government	<u>\$ 10,348,843</u>	<u>\$ 5,065,810</u>	<u>\$ 922,542</u>	<u>\$ 360,828</u>	<u>\$ (3,999,663)</u>
<b>COMPONENT UNIT:</b>					
Downtown development authority	<u>\$ 119,939</u>	<u>\$ -</u>	<u>\$ 43,788</u>	<u>\$ -</u>	<u>\$ (76,151)</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 assets:</i>				
Net (Expense) Revenue	\$ (3,642,687)	\$ (356,976)	\$ (3,999,663)	\$ (76,151)
<i>General revenues:</i>				
Taxes:				
Property taxes, levied for general purpose	3,517,480	-	3,517,480	-
Property taxes, levied and captured by DDA	-	-	-	106,167
Payment in lieu of taxes	71,598	-	71,598	-
Franchise fees	75,336	-	75,336	-
Grants and contributions not restricted to specific programs	705,494	-	705,494	-
Unrestricted investment earnings	46,400	16,209	62,609	968
Other	-	1,591	1,591	-
Special item - Gain (loss) on sale of capital asset	7,630	-	7,630	-
Transfers	1,215	(1,215)	-	-
Total general revenues and other	4,425,153	16,585	4,441,738	107,135
Changes in net position	782,466	(340,391)	442,075	30,984
Net position, beginning of year	10,353,099	19,538,942	29,892,041	120,798
Net position, end of year	\$ 11,135,565	\$ 19,198,551	\$ 30,334,116	\$ 151,782

# CITY OF LUDINGTON

## GOVERNMENTAL FUNDS

### BALANCE SHEET

December 31, 2012

	<i>General Fund</i>	<i>Major Street Fund</i>	<i>Nonmajor Governmental Funds</i>	<i>Total</i>
<b>Assets:</b>				
Cash and investments	\$ 1,512,148	\$ 346,125	\$ 699,564	\$ 2,557,837
Taxes receivable	3,632,330	-	-	3,632,330
Accounts receivable	186,469	61	-	186,530
Special assessments receivable	2,697	-	-	2,697
Notes receivable	-	-	5,207	5,207
Accrued interest receivable	770	172	290	1,232
Due from other governmental units	140,128	69,194	31,445	240,767
Due from other funds	450	-	-	450
Inventory	12,395	53,099	-	65,494
Prepaid expenditures	83,854	1,482	5,029	90,365
Total assets	<u>\$ 5,571,241</u>	<u>\$ 470,133</u>	<u>\$ 741,535</u>	<u>\$ 6,782,909</u>
<b>Liabilities and Fund Balances:</b>				
<i>Liabilities:</i>				
Accounts payable	\$ 103,229	\$ 5,952	\$ 12,610	\$ 121,791
Accrued expenses	53,946	2,283	9,995	66,224
Due to other funds	-	-	450	450
Deposits payable	19,026	-	-	19,026
Deferred revenue	3,666,319	-	26,974	3,693,293
Total liabilities	<u>3,842,520</u>	<u>8,235</u>	<u>50,029</u>	<u>3,900,784</u>
<i>Fund balances:</i>				
Nonspendable:				
Inventory	12,395	53,099	-	65,494
Prepaid expenditures	83,854	-	5,029	88,883
Long-term receivables	-	-	5,207	5,207
Restricted for:				
Streets	-	408,799	257,818	666,617
Senior center activities	-	-	45,428	45,428
Debt service	-	-	2	2
Contamination cleanup activities	-	-	6,984	6,984
Committed to:				
Recreation activities	-	-	75,223	75,223
Downtown building rehab	-	-	87,468	87,468
Cemetery capital improvements	-	-	208,347	208,347
Assigned to:				
Waterfront playground equipment	9,132	-	-	9,132
Unassigned	1,623,340	-	-	1,623,340
Total fund balances	<u>1,728,721</u>	<u>461,898</u>	<u>691,506</u>	<u>2,882,125</u>
Total liabilities and fund balances	<u>\$ 5,571,241</u>	<u>\$ 470,133</u>	<u>\$ 741,535</u>	<u>\$ 6,782,909</u>

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

# CITY OF LUDINGTON

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

December 31, 2012

<b>Total fund balances for governmental funds</b>		\$ 2,882,125
Total 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	9,168,546	
Less accumulated depreciation	<u>(2,472,522)</u>	6,696,024
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.		63,692
Interest payable in the governmental activities are not payable from current resources and therefore are not reported in the governmental funds.		(27,215)
Net other postemployment benefit obligation (OPEB) are not reported in the governmental funds.		(107,206)
Long-term liabilities are not due and payable in the current year and therefore are not reported in the governmental funds:		
Bonds payable	(1,670,000)	
Compensated absences payable	<u>(101,126)</u>	(1,771,126)
The assets and liabilities of internal service funds are included in governmental activities in the statement of net position.		<u>3,399,271</u>
<b>Net position of governmental activities</b>		<b><u>\$11,135,565</u></b>

*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, 2012

	<i>General Fund</i>	<i>Major Street Fund</i>	<i>Nonmajor Governmental Funds</i>	<i>Total</i>
<b>Revenues:</b>				
Property taxes	\$ 3,589,078	\$ -	\$ -	\$ 3,589,078
Licenses and permits	125,480	-	-	125,480
Federal grants	21,281	360,000	31,614	412,895
State grants	721,641	428,558	186,696	1,336,895
Contributions from other units	58,739	-	171,330	230,069
Charges for services	532,639	-	49,910	582,549
Fines and forfeits	33,306	-	-	33,306
Interest and rents	40,774	3,893	3,802	48,469
Other revenue	292,958	45	43,031	336,034
<b>Total revenues</b>	<b>5,415,896</b>	<b>792,496</b>	<b>486,383</b>	<b>6,694,775</b>
<b>Expenditures:</b>				
Current				
General government	1,392,903	-	-	1,392,903
Public safety	1,500,606	-	-	1,500,606
Public works	1,170,576	231,925	231,342	1,633,843
Health and welfare	-	-	161,481	161,481
Community and economic development	93,265	-	79,758	173,023
Recreation and culture	438,064	-	142,727	580,791
Other	41,498	-	-	41,498
Capital outlay	25,441	674,031	155,792	855,264
Debt service				
Principal	-	-	190,000	190,000
Interest and fees	-	-	72,440	72,440
<b>Total expenditures</b>	<b>4,662,353</b>	<b>905,956</b>	<b>1,033,540</b>	<b>6,601,849</b>
Excess (deficiency) of revenues over expenditures	753,543	(113,460)	(547,157)	92,926
<b>Other financing sources (uses):</b>				
Transfers from (to) other funds	(421,153)	-	422,368	1,215
Changes in fund balances	332,390	(113,460)	(124,789)	94,141
Fund balances, beginning of year	1,396,331	575,358	816,295	2,787,984
Fund balances, end of year	\$ 1,728,721	\$ 461,898	\$ 691,506	\$ 2,882,125

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

# CITY OF LUDINGTON

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

Year Ended December 31, 2012

<b>Changes in fund balances - total governmental funds</b>		\$ 94,141
Total 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	852,788	
Less depreciation expense	<u>(261,588)</u>	591,200
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.		(16,697)
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.		190,000
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.		(34,229)
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	(13,876)	
Change in accrued interest on bonds	<u>2,968</u>	(10,908)
The net revenue (expense) of the internal service fund reported with governmental activities.		<u>(31,041)</u>
<b>Changes in net position of governmental activities</b>		<u>\$ 782,466</u>

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

# CITY OF LUDINGTON

## PROPRIETARY FUNDS

### STATEMENT OF NET POSITION

December 31, 2012

	<i>Business-type Activities</i>					<i>Governmental</i>
						<i>Activities</i>
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Marina Fund</i>	<i>Nonmajor Cartier Park Campground Fund</i>	<i>Total Enterprise Funds</i>	<i>Internal Service Funds</i>
<b>Assets:</b>						
<b>Current assets:</b>						
Cash and investments	\$ 411,663	\$ 913,487	\$ 579,463	\$ 178,539	\$ 2,083,152	\$ 159,349
Accounts receivable	315,332	308,789	-	-	624,121	12,707
Accrued interest receivable	453	728	284	90	1,555	84
Due from other governmental units	-	-	339	-	339	657
Inventory	47,914	143,420	19,774	-	211,108	89,987
Prepaid expenses	27,531	37,230	9,074	1,326	75,161	38,590
Total current assets	<u>802,893</u>	<u>1,403,654</u>	<u>608,934</u>	<u>179,955</u>	<u>2,995,436</u>	<u>301,374</u>
<b>Noncurrent assets:</b>						
Restricted cash and investments	487,004	609,013	-	-	1,096,017	-
Capital assets:						
Nondepreciable capital assets	72,415	3,247	791,393	-	867,055	4,250
Depreciable capital assets, net	<u>8,426,539</u>	<u>5,661,821</u>	<u>1,837,537</u>	<u>133,672</u>	<u>16,059,569</u>	<u>2,906,760</u>
Total noncurrent assets	<u>8,985,958</u>	<u>6,274,081</u>	<u>2,628,930</u>	<u>133,672</u>	<u>18,022,641</u>	<u>2,911,010</u>
Total assets	<u>9,788,851</u>	<u>7,677,735</u>	<u>3,237,864</u>	<u>313,627</u>	<u>21,018,077</u>	<u>3,212,384</u>
<b>Liabilities:</b>						
<b>Current liabilities:</b>						
Accounts payable	66,281	111,513	9,622	6,845	194,261	61,080
Accrued expenses	9,949	16,911	1,207	887	28,954	5,571
Deposits payable	-	3,900	-	-	3,900	-
Deferred revenue	-	-	98,595	-	98,595	-
Current long-term debt	70,000	-	-	-	70,000	-
Total current liabilities	<u>146,230</u>	<u>132,324</u>	<u>109,424</u>	<u>7,732</u>	<u>395,710</u>	<u>66,651</u>
<b>Noncurrent liabilities:</b>						
Compensated absences payable	12,465	28,003	3,247	-	43,715	6,981
Long-term debt	1,100,000	-	-	-	1,100,000	-
Net OPEB obligation	6,533	11,675	1,374	-	19,582	-
Total noncurrent liabilities	<u>1,118,998</u>	<u>39,678</u>	<u>4,621</u>	<u>-</u>	<u>1,163,297</u>	<u>6,981</u>
Total liabilities	<u>1,265,228</u>	<u>172,002</u>	<u>114,045</u>	<u>7,732</u>	<u>1,559,007</u>	<u>73,632</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, 2012

	<i>Business-type Activities</i>				<i>Governmental Activities</i>	
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Marina Fund</i>	<i>Nonmajor</i>	<i>Total Enterprise Funds</i>	<i>Internal Service Funds</i>
				<i>Park Campground Fund</i>		
<b>Net position:</b>						
Invested in capital assets, net of related debt	7,328,954	5,665,068	2,628,930	133,672	15,756,624	2,911,010
Restricted for:						
Debt service	180,000	-	-	-	180,000	-
Equipment replacement	307,004	609,013	-	-	916,017	-
Unrestricted	707,665	1,231,652	494,889	172,223	2,606,429	227,742
Total net position	<u>\$ 8,523,623</u>	<u>\$ 7,505,733</u>	<u>\$ 3,123,819</u>	<u>\$ 305,895</u>	\$ 19,459,070	<u>\$ 3,138,752</u>
Adjustment to reflect the consolidation of internal service funds					(260,519)	
Net position of business-type activities					<u>\$ 19,198,551</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, 2012

	<i>Business-type Activities</i>					<i>Governmental</i>
						<i>Activities</i>
	<i>Sewer</i>	<i>Water</i>	<i>Marina</i>	<i>Nonmajor</i>	<i>Total</i>	<i>Internal</i>
<i>Fund</i>	<i>Fund</i>	<i>Fund</i>	<i>Park</i>	<i>Enterprise</i>	<i>Service</i>	
	<i>Fund</i>	<i>Fund</i>	<i>Fund</i>	<i>Campground</i>	<i>Funds</i>	<i>Funds</i>
<b>Operating revenues:</b>						
Charges for services	\$ 1,362,976	\$ 1,374,929	\$ 806,303	\$ 195,735	\$ 3,739,943	\$ -
Equipment rental	-	-	-	-	-	687,480
Other	3,071	15,132	31	14,957	33,191	178,196
Total operating revenues	1,366,047	1,390,061	806,334	210,692	3,773,134	865,676
<b>Operating expenses:</b>						
Personnel	308,963	491,749	111,540	59,710	971,962	174,492
Fringe benefits	173,421	290,120	31,948	6,971	502,460	96,320
Supplies	113,884	71,305	423,812	16,842	625,843	353,411
Contracted services	104,285	157,689	47,372	18,360	327,706	64,229
Administrative expense	74,200	74,200	43,200	21,200	212,800	55,700
Telephone	4,278	7,818	2,922	1,689	16,707	2,718
Mileage	25	-	148	-	173	-
Dues, licenses and permits	441	805	450	-	1,696	-
Education and training	1,900	2,759	320	-	4,979	640
Printing and publishing	-	-	2,538	785	3,323	-
Insurance	23,113	31,124	8,646	-	62,883	60,520
Utilities	179,308	136,248	28,139	16,359	360,054	28,940
Repairs and maintenance	26,787	66,686	15,172	8,821	117,466	110,900
Equipment rental	46,694	68,391	9,836	6,463	131,384	1,747
Other services and supplies	-	-	40,384	-	40,384	7,139
Depreciation	244,995	192,406	118,063	4,005	559,469	209,865
Total operating expenses	1,302,294	1,591,300	884,490	161,205	3,939,289	1,166,621
Operating income (loss)	63,753	(201,239)	(78,156)	49,487	(166,155)	(300,945)
<b>Non-operating revenues</b>						
<b>(expenses):</b>						
Federal grant	828	-	-	-	828	-
Interest income	2,895	9,402	3,201	711	16,209	1,755
Rental income	-	89,020	-	-	89,020	-
Net gain on sale of assets	-	-	-	-	-	7,630
Other income - Scrap sales	133	1,458	-	-	1,591	-
Interest expense	(20,150)	-	-	-	(20,150)	-
Net non-operating	(16,294)	99,880	3,201	711	87,498	9,385

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, 2012

	<i>Business-type Activities</i>				<i>Governmental Activities</i>	
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Marina Fund</i>	<i>Nonmajor</i>	<i>Total Enterprise Funds</i>	<i>Internal Service Funds</i>
				<i>Park Campground Fund</i>		
Changes in net assets before transfers	47,459	(101,359)	(74,955)	50,198	(78,657)	(291,560)
<b>Transfers to other funds</b>	-	-	(1,215)	-	(1,215)	-
Changes in net position	47,459	(101,359)	(76,170)	50,198	(79,872)	(291,560)
Net position, beginning of year	8,476,164	7,607,092	3,199,989	255,697		3,430,312
Net position, end of year	<u>\$ 8,523,623</u>	<u>\$ 7,505,733</u>	<u>\$ 3,123,819</u>	<u>\$ 305,895</u>		<u>\$ 3,138,752</u>
Adjustment to reflect the consolidation of internal service funds					(260,519)	
Changes in net position of business-type activities					<u>\$ (340,391)</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, 2012

	<i>Business-type Activities</i>				<i>Governmental Activities</i>	
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Marina Fund</i>	<i>Nonmajor</i>	<i>Total Enterprise Funds</i>	<i>Internal Service Funds</i>
				<i>Cartier Park Campground Fund</i>		
<b>Cash flows from operating activities:</b>						
Cash received from customers	\$ 1,324,586	\$ 1,403,455	\$ 798,551	\$ 210,692	\$ 3,737,284	\$ 179,021
Cash received from interfund services	-	-	-	-	-	687,480
Cash payments to employees	(304,794)	(489,294)	(110,957)	(59,710)	(964,755)	(174,721)
Cash payments to suppliers for goods and services	<u>(700,745)</u>	<u>(824,699)</u>	<u>(641,866)</u>	<u>(96,142)</u>	<u>(2,263,452)</u>	<u>(763,340)</u>
Net cash provided (used) by operating activities	<u>319,047</u>	<u>89,462</u>	<u>45,728</u>	<u>54,840</u>	<u>509,077</u>	<u>(71,560)</u>
<b>Cash flows from non-capital financing activities:</b>						
Transfers from (to) other funds	<u>-</u>	<u>-</u>	<u>(1,215)</u>	<u>-</u>	<u>(1,215)</u>	<u>-</u>
<b>Cash flows from capital and related financing activities:</b>						
Other income - scrap sales	133	1,458	-	-	1,591	-
Acquisition and construction of capital assets	(143,943)	(538,021)	(23,341)	-	(705,305)	(74,490)
Principal payments	(70,000)	-	-	-	(70,000)	-
Interest paid	<u>(20,150)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(20,150)</u>	<u>-</u>
Net cash used by capital and related financing activities	<u>(233,132)</u>	<u>(536,563)</u>	<u>(23,341)</u>	<u>-</u>	<u>(793,036)</u>	<u>(66,860)</u>
<b>Cash flows from investing activities:</b>						
Interest received	2,718	9,299	3,106	664	15,787	1,770
Rent received	<u>-</u>	<u>89,020</u>	<u>-</u>	<u>-</u>	<u>89,020</u>	<u>-</u>
Net cash provided by investing activities	<u>2,718</u>	<u>98,319</u>	<u>3,106</u>	<u>664</u>	<u>104,807</u>	<u>1,770</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, 2012

	<i>Business-type Activities</i>					<i>Governmental</i>
						<i>Activities</i>
	<i>Sewer</i>	<i>Water</i>	<i>Marina</i>	<i>Nonmajor</i>	<i>Total</i>	<i>Internal</i>
<i>Fund</i>	<i>Fund</i>	<i>Fund</i>	<i>Cartier</i>	<i>Enterprise</i>	<i>Service</i>	
	<i>Fund</i>	<i>Fund</i>	<i>Fund</i>	<i>Park</i>	<i>Funds</i>	<i>Funds</i>
	<i>Fund</i>	<i>Fund</i>	<i>Fund</i>	<i>Campground</i>	<i>Funds</i>	<i>Funds</i>
Net increase (decrease) in cash and investments	88,633	(348,782)	24,278	55,504	(180,367)	(136,650)
Cash and investments, beginning of year	810,034	1,871,282	555,185	123,035	3,359,536	295,999
Cash and investments, end of year	\$ 898,667	\$ 1,522,500	\$ 579,463	\$ 178,539	\$ 3,179,169	\$ 159,349
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>						
Operating income (loss)	\$ 63,753	\$ (201,239)	\$ (78,156)	\$ 49,487	\$ (166,155)	\$ (300,945)
Adjustments:						
Depreciation	244,995	192,406	118,063	4,005	559,469	209,865
Change in assets and liabilities:						
Accounts receivable	(41,461)	13,394	-	-	(28,067)	423
Due from other governmental units	-	-	2	-	2	402
Inventory	4,875	(7,118)	3,640	-	1,397	(36,164)
Prepaid expenses	5,066	10,921	6,096	(60)	22,023	3,698
Accounts payable	38,670	78,829	3,201	944	121,644	51,390
Accrued expenses	(1,020)	(186)	84	464	(658)	778
Deferred revenue	-	-	(7,785)	-	(7,785)	-
Compensated absences payable	1,920	(1,310)	259	-	869	(1,007)
Net OPEB obligation	2,249	3,765	324	-	6,338	-
Net cash provided (used) by operating activities	\$ 319,047	\$ 89,462	\$ 45,728	\$ 54,840	\$ 509,077	\$ (71,560)

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

# CITY OF LUDINGTON

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## FIDUCIARY FUNDS

### STATEMENT OF NET POSITION

December 31, 2012

	<i>Police Pension Trust Fund</i>	<i>Agency Funds</i>	<i>Total</i>
<b>Assets:</b>			
Cash and investments	\$ 4,028,881	\$ 3,982,881	\$ 8,011,762
Taxes receivable	289,170	-	289,170
Accrued interest receivable	69	-	69
Total assets	<u>4,318,120</u>	<u>3,982,881</u>	<u>8,301,001</u>
<b>Liabilities:</b>			
Accounts payable	730	2,000	2,730
Undistributed tax collections	-	3,980,881	3,980,881
Deferred revenue	<u>289,170</u>	<u>-</u>	<u>289,170</u>
Total liabilities	<u>289,900</u>	<u>3,982,881</u>	<u>4,272,781</u>
<b>Net position:</b>			
Held in trust for pension benefits	<u>4,028,220</u>	<u>-</u>	<u>4,028,220</u>
Total net position	<u>\$ 4,028,220</u>	<u>\$ -</u>	<u>\$ 4,028,220</u>

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

# CITY OF LUDINGTON

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## FIDUCIARY FUNDS

### STATEMENT OF CHANGES IN FUND NET POSITION

Year Ended December 31, 2012

	<i>Police Pension Trust Fund</i>
<b>Additions:</b>	
Property taxes	\$ 282,184
Employee contributions	41,835
Investment income (loss)	<u>424,942</u>
Total additions	<u>748,961</u>
<b>Deductions:</b>	
Benefit payments	356,547
Fees and other	<u>49,977</u>
Total deductions	<u>406,524</u>
Net increase	342,437
Net position, beginning of year	<u>3,685,783</u>
Net position, end of year	<u><u>\$ 4,028,220</u></u>

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

***NOTES TO FINANCIAL STATEMENTS***

# CITY OF LUDINGTON

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## NOTES TO FINANCIAL STATEMENTS

December 31, 2012

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### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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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, the financial statements of the reporting entity include those of the City and its component units. In evaluating the City as a reporting entity, management has addressed all potential component units (traditionally separate reporting entities) for which the City may be financially accountable and, as such, should be included within the City's financial statements. The City (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial burden on the City. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The component units discussed below are included in the City's reporting entity because of their operational or financial relationship with the City.

#### **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.

# CITY OF LUDINGTON

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2012

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

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

### ***Government-wide Financial Statements:***

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

The statement of net position and the statement of activities report information on all of the nonfiduciary activities of the primary government and its component units. These statements distinguish between activities that are governmental and those that are business-type activities. Internal service fund activity is eliminated to avoid “doubling up” revenues and expenses.

The statement of net position presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The City’s net position are reported in three parts (1) invested in capital assets, net of related debt, (2) restricted net position, and (3) unrestricted net position. The City first utilizes restricted resources to finance qualifying activities.

The statement of activities reports both the gross and net cost of each of the City’s functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The City does not allocate indirect costs. In creating the government-wide financial statements the City has eliminated interfund transactions.

The government-wide focus is on the sustainability of the City as an entity and the change in the City’s net position resulting from current year activities.

### ***Fund Financial Statements:***

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.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the

# CITY OF LUDINGTON

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2012

government considers revenues to be available if they are collected within 60 days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise fees, licenses, and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Only the portion of special assessments receivable due within the current period is considered to be susceptible to accrual as revenue of the current period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Fiduciary funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Fiduciary funds are accounted for on a spending or economic resources measurement focus and the accrual basis of accounting as are the proprietary funds.

The City reports the following major governmental funds:

The **General Fund** is the primary operating fund of the City. It is used to account for all financial resources, except for those required to be accounted for in another fund.

The **Major Street Fund** is used to account for the revenues and expenditures for the City's major street system.

The City reports the following major enterprise funds:

The **Sewer Fund** is used to account for the revenues and expenses for the operation of a sewer system.

The **Water Fund** is used to account for the revenues and expenses for the operation of a water system.

The **Marina Fund** is used to account for the revenues and expenses for the operation of a marina.

Additionally, the City reports the following fiduciary fund types:

The **Police Pension Trust Fund** accounts for the activities of the City's police retirement system.

# CITY OF LUDINGTON

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2012

### Assets, Liabilities and Equity:

**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. Investments are stated at fair value. For purposes of the statement of cash flows, the City considers all investments (including restricted assets) to be cash equivalents.

**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. These balances are paid back as cash flow permits.

**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. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**Capital Assets** – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The City defines capital assets as assets with an initial individual cost in excess of \$1,000. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. Public domain (infrastructure) assets (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the government) are capitalized if acquired after January 1, 2004. Capital assets are depreciated using the straight-line method over the following useful lives:

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
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.

**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.

# CITY OF LUDINGTON

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2012

**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 Equity** – In the fund financial statements, fund balance is 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 which cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact.

*Restricted* – amounts that have constraints placed on their use by an external party or constitutional provisions or enabling legislation (grants, contributions, specific fee mandates).

*Committed* – amounts that are committed for specific purposes by the City Council, as the City’s highest level of decision-making authority, pursuant to constraints imposed by formal actions taken, such as majority vote or resolution. These committed amounts cannot be used for any other purpose unless the City Council removes or changes the specific use through the same type of formal action taken to establish the commitment.

*Assigned* – amounts that are constrained by the City’s intent to be used for specific purposes, but are neither restricted nor committed. The City Council has the authority to assign amounts to be used for specific purposes.

*Unassigned* – amounts that are available for any purpose. The General Fund is the only fund that reports a positive unassigned fund balance amount. Unassigned balances also include negative balances in the governmental funds reporting resources restricted for specific programs.

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

### **Use of Estimates:**

The preparation of financial statements in conformity with 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.

# CITY OF LUDINGTON

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2012

### **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 the county, school district, community college, the Ludington Area Mass Transit Authority, and the intermediate school district. Collections of all the taxes and remittances of them to the other taxing authorities are accounted for in an agency fund.

Revenues for 2012 include property taxes levied in 2011 but appropriated by a City ordinance to finance 2012 operations. Property taxes levied in 2012 for the operations of 2013 are a lien against properties and are an asset of the City. They are recorded as taxes receivable and deferred revenue at December 31, 2012. In 2011, the City levied property taxes on an assessed property tax value of \$256,669,352 (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 Downtown Development Authority levied property taxes on an assessed property tax value of \$25,635,320 (exclusive of any Michigan Tax Tribunal or Board of Review adjustments). Taxes levied consisted of 1.6080 mills.

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## **NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

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### **Budgetary Information:**

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. 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.
2. During the month of November, the City Council holds open meetings to review the budget in detail and to obtain taxpayer comments.
3. At the first Council meeting in December, the budget is legally enacted by adoption of the City Council.
4. Any revision that alters the total expenditures of any fund must be approved by the City Council.
5. Formal budgetary integration is employed as a management control device during the year for the general fund, the special revenue funds, and debt service funds. Formal budgetary integration is not employed for other funds, but informational summaries are prepared for the enterprise, the internal service and other funds to serve as a management control device and are presented to the City Council for consideration.
6. 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 General Fund and major Special Revenue Funds budgets as originally adopted and amended by the City Council is included in the required supplemental information.
7. All annual appropriations lapse at year end.

# CITY OF LUDINGTON

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2012

### 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, 2012		\$	-
Current year building permit revenue			50,144
Related expenses:			
Direct costs	27,566		
Indirect costs	<u>24,521</u>		<u>52,087</u>
Cumulative surplus at December 31, 2012		\$	<u><u>-</u></u>

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### NOTE 3: DEPOSITS AND INVESTMENTS

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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.

The City has designated seven 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:

# CITY OF LUDINGTON

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2012

### 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 deposit policy for custodial credit risk. At year end, the City had \$8,784,055 of bank deposits (certificates of deposit, checking, and savings accounts), of which \$1,299,461 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	\$ 776,119	1.64 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	\$ 776,119	Aaa	Moody's
Bond mutual funds	589,562	Not Rated	N/A

  

<u>Fiduciary Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Money market	\$ 8,512	Not Rated	N/A
Mutual fund - equity	2,884,603	Not Rated	N/A
Mutual fund - fixed	983,232	Not Rated	N/A

### Concentration of Credit Risk:

The City places limits on the amount the City may invest in any one issuer. At December 31, 2012, there were no investments in any one issuer (other than the U.S. government and mutual funds) that exceeded more than 5 percent of total investments.

# CITY OF LUDINGTON

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2012

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### NOTE 4: RESTRICTED ASSETS AND BOND RESERVES

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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, 2012 the City had these accounts established and had restricted cash as follows:

	<i>Restricted Cash and Investments</i>
<b>Sewer Fund:</b>	
Bond reserve	\$ 180,000
Equipment Replacement	307,004
<b>Water Fund:</b>	
Equipment Replacement	<u>609,013</u>
	<u>\$ 1,096,017</u>

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### NOTE 5: CAPITAL ASSETS

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Capital asset activity for the year ended December 31, 2012 was as follows:

	<i>January 1, 2012</i>	<i>Additions</i>	<i>Retirements</i>	<i>December 31, 2012</i>
<b>Governmental activities:</b>				
Nondepreciable capital assets:				
Land	\$ 262,280	\$ -	\$ -	\$ 262,280
Depreciable capital assets:				
Buildings and improvements	5,617,603	4,590	-	5,622,193
Furniture and equipment	233,075	-	-	233,075
Infrastructure	2,447,102	822,757	-	3,269,859
Land and site improvements	1,043,922	-	-	1,043,922
Machinery and equipment	<u>5,071,707</u>	<u>115,475</u>	<u>(32,442)</u>	<u>5,154,740</u>
Total depreciable capital assets	14,413,409	942,822	(32,442)	15,323,789
Accumulated depreciation	<u>(5,524,480)</u>	<u>(471,453)</u>	<u>16,898</u>	<u>(5,979,035)</u>
Depreciable capital assets, net	<u>8,888,929</u>	<u>471,369</u>	<u>(15,544)</u>	<u>9,344,754</u>
Governmental activities, capital assets, net	<u>\$ 9,151,209</u>	<u>\$ 471,369</u>	<u>\$ (15,544)</u>	<u>\$ 9,607,034</u>

# CITY OF LUDINGTON

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2012

	<u>January 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>December 31, 2012</u>
<b>Business-type activities:</b>				
Nondepreciable capital assets				
Land	\$ 867,055	\$ -	\$ -	\$ 867,055
Depreciable capital assets				
Buildings and improvements	4,379,423	171,142	-	4,550,565
Land improvements	3,313,960	17,590	-	3,331,550
Machinery and equipment	1,083,648	42,505	(22,623)	1,103,530
Sewer systems and plants	12,533,137	143,944	-	12,677,081
Water systems and plants	5,753,052	330,124	-	6,083,176
Total depreciable capital assets	27,063,220	705,305	(22,623)	27,745,902
Accumulated depreciation	(11,149,486)	(559,469)	22,623	(11,686,332)
Depreciable capital assets, net	15,913,734	145,836	-	16,059,570
Business-type activities, capital assets, net	<u>\$ 16,780,789</u>	<u>\$ 145,836</u>	<u>\$ -</u>	<u>\$ 16,926,625</u>
<b>Component unit - DDA:</b>				
Depreciable capital assets				
Land improvements	\$ -	\$ 10,672	\$ -	\$ 10,672
Machinery and equipment	28,815	-	-	28,815
Total depreciable capital assets	28,815	10,672	-	39,487
Accumulated depreciation	(11,571)	(5,417)	-	(16,988)
Depreciable capital assets, net	<u>\$ 17,244</u>	<u>\$ 5,255</u>	<u>\$ -</u>	<u>\$ 22,499</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	\$ 81,950	\$ -	\$ -
Public safety	29,104	-	-
Public works	285,960	-	-
Health and welfare	3,401	-	-
Community and economic development	1,179	-	5,417
Recreation and culture	69,859	-	-
Sewer	-	244,995	-
Water	-	192,406	-
Marina	-	118,063	-
Cartier Park Campground	-	4,005	-
	<u>\$ 471,453</u>	<u>\$ 559,469</u>	<u>\$ 5,417</u>

# CITY OF LUDINGTON

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2012

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### NOTE 6: DEFERRED CHARGES

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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 bond issuance costs in relation to this refunding were recorded as deferred charges on the statement of net position and are being amortized over the life of the bond based on the amount of interest paid per year as a percentage of total interest.

	<i>January 1, 2012</i>	<i>2012 Amortization Expense</i>	<i>December 31, 2012</i>
Deferred charges	\$ 80,389	\$ 16,697	\$ 63,692

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### NOTE 7: DEFERRED REVENUE

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

	<i>Unearned</i>
<b>Primary Government:</b>	
Property taxes	\$ 3,632,330
Grants	26,974
Special assessments	17,614
Other	114,970
	<u>\$ 3,791,888</u>
<b>Component Unit:</b>	
Property taxes	<u>\$ 107,566</u>

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### NOTE 8: LONG-TERM LIABILITIES

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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 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, CONTINUED

December 31, 2012

Long-term obligation activity for the year ended December 31, 2012 is summarized as follows:

	<u>January 1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31, 2012</u>	<i>Due Within One Year</i>
<b>Governmental Activities:</b>					
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	\$1,860,000	\$ -	\$ (190,000)	\$ 1,670,000	\$ 195,000
Compensated absences	95,238	13,876	(1,007)	108,107	-
Net OPEB obligation	<u>72,977</u>	<u>34,229</u>	<u>-</u>	<u>107,206</u>	<u>-</u>
Total Governmental Activities	<u>\$2,028,215</u>	<u>\$ 48,105</u>	<u>\$ (191,007)</u>	<u>\$ 1,885,313</u>	<u>\$ 195,000</u>
<b>Business-type Activities:</b>					
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	\$1,240,000	\$ -	\$ (70,000)	\$ 1,170,000	\$ 70,000
Compensated absences	42,846	869	-	43,715	-
Net OPEB obligation	<u>13,244</u>	<u>6,338</u>	<u>-</u>	<u>19,582</u>	<u>-</u>
Total Business-type Activities	<u>\$1,296,090</u>	<u>\$ 7,207</u>	<u>\$ (70,000)</u>	<u>\$ 1,233,297</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> <u>December 31,</u>	<u>Governmental Activities</u>			<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 195,000	\$ 65,315	\$ 260,315	\$ 70,000	\$ 19,012	\$ 89,012
2014	210,000	57,515	267,515	70,000	17,874	87,874
2015	225,000	49,115	274,115	70,000	16,738	86,738
2016	240,000	40,115	280,115	75,000	15,600	90,600
2017	250,000	31,235	281,235	75,000	14,382	89,382
2018-2022	550,000	33,135	583,135	390,000	53,382	443,382
2023-2027	<u>-</u>	<u>-</u>	<u>-</u>	<u>420,000</u>	<u>20,638</u>	<u>440,638</u>
	<u>\$ 1,670,000</u>	<u>\$ 276,430</u>	<u>\$ 1,946,430</u>	<u>\$ 1,170,000</u>	<u>\$ 157,626</u>	<u>\$ 1,327,626</u>

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, 2012 is \$594,393. 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.

# CITY OF LUDINGTON

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2012

### 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>	
<b>Receivables:</b>				
Property taxes	\$ 3,632,330	\$ -	\$ 3,632,330	\$ 107,566
Accounts	199,237	624,121	823,358	14,994
Special assessments	2,781	-	2,781	-
Notes	5,207	-	5,207	-
Accrued interest	1,889	1,555	3,444	58
Intergovernmental	240,767	339	241,106	-
Total receivables	<u>\$ 4,082,211</u>	<u>\$ 626,015</u>	<u>\$ 4,708,226</u>	<u>\$ 122,618</u>
<b>Accounts payable and accrued expenses:</b>				
Accounts	\$ 182,871	\$ 194,261	\$ 377,132	\$ 4,922
Payroll liabilities	71,795	28,954	100,749	-
Deposits payable	19,026	3,900	22,926	-
Accrued interest	27,215	-	27,215	-
Intergovernmental	-	-	-	242
Total accounts payable and accrued expenses	<u>\$ 300,907</u>	<u>\$ 227,115</u>	<u>\$ 528,022</u>	<u>\$ 5,164</u>

### NOTE 10: INTERFUND BALANCES AND TRANSFERS

There were no outstanding interfund receivable and payable balances at December 31, 2012.

The composition of interfund transfers at December 31, 2012 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	
	Local Street Fund	\$ 114,900
	Recreation Fund	42,000
	Building Authority Bond Fund	262,440
	W. Ludington Avenue Project Fund	4,043
Nonmajor Governmental Funds	General Fund	
Cemetery Capital Improvement Fund		1,015
Marina Fund	General Fund	1,215
	Total	<u>\$ 425,613</u>

# CITY OF LUDINGTON

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2012

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

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### NOTE 11: RISK MANAGEMENT

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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.

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### NOTE 12: EMPLOYEE RETIREMENT PLANS

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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 provisions: 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 times the final average compensation (FAC) 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, 2011.

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.

# CITY OF LUDINGTON

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2012

**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 is required to contribute 4.93 percent. The City’s actuarially determined rate for division 01 was 22.84 percent of eligible payroll or a fixed monthly rate of \$37,641 based on the December 31, 2010 valuation.

**Annual Pension Costs** – For year ended December 31, 2012, the City’s annual pension cost of \$452,171 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 30 years.

Three year trend information as of December 31, follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Annual pension cost	\$ 452,171	\$ 444,060	\$ 438,611
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

**Funded Status** – As of December 31, 2011, the most recent actuarial valuation date, the plan was 77 percent funded. The actuarial accrued liability for benefits was \$16,858,140, and the actuarial value of assets was \$12,956,687, resulting in an unfunded actuarial accrued liability (UAAL) of \$3,901,453. 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 197 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, 2011:

Retirees and Beneficiaries receiving benefits	13
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>12</u>
Total	<u>25</u>

# CITY OF LUDINGTON

## NOTES TO FINANCIAL STATEMENTS, CONTINUED December 31, 2012

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 average final compensation (AFC) times first 25 years of service plus 1% of AFC 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, 2012 were as follows:

	<i>Fair Value</i>
Cash and cash equivalents	\$ 152,534
Investments - mutual funds	3,876,347
	\$ 4,028,881

**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 5% 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, 2012, the City made contributions of \$282,184 and the police employees contributed \$41,835.

Three year trend information as of December 31 follows:

	<i>2012</i>	<i>2011</i>	<i>2010</i>
Annual pension cost	\$ 282,184	\$ 270,508	\$ 260,631
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

**Funded Status** – As of December 31, 2011, the most recent actuarial valuation date, the plan was 63 percent funded. The actuarial accrued liability for benefits was \$5,962,895, and the actuarial value of assets was \$3,728,233, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,234,662. The covered payroll (annual payroll of active employees covered by the plan) was \$745,397, and the ratio of the UAAL to the covered payroll was 300 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

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2012

### **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.

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### **NOTE 13: OTHER POSTEMPLOYMENT BENEFITS**

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**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, who retire 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.

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 \$39,250.

**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.

**Annual Required Contribution Funding** – As of January 1, 2010, 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.

# CITY OF LUDINGTON

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2012

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

For the year ended December 31, 2012:

Annual required contribution (recommended)	\$ 76,368
Interest on the prior year's net OPEB obligation	3,448
Less adjustment to the annual required contribution	<u>-</u>
Annual OPEB cost	79,816
Amounts contributed:	
Payments of current premiums	(39,250)
Advance funding	<u>-</u>
Increase in net OPEB obligation	40,566
OPEB obligation, beginning of year	<u>86,221</u>
OPEB obligation, end of year	<u>\$ 126,787</u>

The OPEB obligation is recorded as follows:

Governmental activities	\$ 107,206
Business-type activities	<u>19,581</u>
Total	<u>\$ 126,787</u>

**Funded Status** – As of January 1, 2010, which is the most recent actuarial valuation, the actuarial accrued liability for benefits was \$959,967, all of which was unfunded. The unfunded liability is approximately 36% of the current covered annual payroll. Because the plan is not being funded, the required schedule of funding progress immediately following the notes to the financial statements is not presented. The schedule of funding progress normally would present 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.

**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.

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, 2010 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.

***REQUIRED SUPPLEMENTAL INFORMATION***

# CITY OF LUDINGTON

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## SCHEDULE OF PENSION PLANS FUNDING PROGRESS

Year Ended December 31, 2012

### *Schedule of Pension Plan Funding Progress - General:*

<u>Actuarial Valuation Date</u>	<u>12/31/11</u>	<u>12/31/10</u>	<u>12/31/09</u>
Actuarial Value of Assets	\$ 12,956,687	\$ 12,893,316	\$ 12,777,284
Actuarial Accrued Liability (AAL)	16,858,140	16,153,327	15,938,047
Unfunded AAL (UAAL)	3,901,453	3,260,011	3,160,763
Funded Ratio	77%	80%	80%
Covered Payroll	1,982,367	1,977,617	1,919,604
UAAL as a percentage of covered payroll	197%	165%	165%

### *Schedule of Pension Plan Funding Progress - Police:*

<u>Actuarial Valuation Date</u>	<u>12/31/11</u>	<u>12/31/10</u>	<u>12/31/09</u>
Actuarial Value of Assets	\$ 3,728,233	\$ 3,725,972	\$ 3,714,775
Actuarial Accrued Liability (AAL)	5,962,895	5,982,747	5,705,071
Unfunded AAL (UAAL)	2,234,662	2,256,775	1,990,296
Funded Ratio	63%	62%	65%
Covered Payroll	745,397	854,278	896,135
UAAL as a percentage of covered payroll	300%	264%	222%

# CITY OF LUDINGTON

## GENERAL FUND

### BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2012

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Actual</i>
	<i>Original</i>	<i>Final</i>		<i>Over (Under)</i>
				<i>Final Budget</i>
<b>Revenues:</b>				
Property taxes	\$ 3,602,900	\$ 3,602,900	\$ 3,589,078	\$ (13,822)
Licenses and permits	81,000	122,600	125,480	2,880
Federal grants	-	-	21,281	21,281
State grants	628,000	718,400	721,641	3,241
Contributions from other units	53,100	62,900	58,739	(4,161)
Charges for services	510,700	550,200	532,639	(17,561)
Fines and forfeits	34,000	34,000	33,306	(694)
Interest and rents	33,100	41,100	40,774	(326)
Other revenue	76,400	287,900	292,958	5,058
<b>Total revenues</b>	<b>5,019,200</b>	<b>5,420,000</b>	<b>5,415,896</b>	<b>(4,104)</b>
<b>Expenditures:</b>				
Current				
General government	1,318,900	1,398,400	1,392,903	(5,497)
Public safety	1,525,900	1,526,300	1,526,047	(253)
Public works	1,199,100	1,170,900	1,170,576	(324)
Community and economic development	101,500	93,400	93,265	(135)
Recreation and culture	444,100	438,700	438,064	(636)
Other	46,100	41,500	41,498	(2)
<b>Total expenditures</b>	<b>4,635,600</b>	<b>4,669,200</b>	<b>4,662,353</b>	<b>(6,847)</b>
Excess (deficiency) of revenues over expenditures	383,600	750,800	753,543	2,743
<b>Other financing sources (uses):</b>				
Transfers from (to) other funds	(417,300)	(421,300)	(421,153)	147
Change in fund balance	(33,700)	329,500	332,390	2,890
Fund balance, beginning of year	1,396,331	1,396,331	1,396,331	-
Fund balance, end of year	\$ 1,362,631	\$ 1,725,831	\$ 1,728,721	\$ 2,890

# CITY OF LUDINGTON

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## MAJOR STREET FUND

### BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2012

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Actual</i>
	<i>Original</i>	<i>Final</i>		<i>Over (Under)</i>
				<i>Final Budget</i>
<b>Revenues:</b>				
Federal grants	\$ 360,000	\$ 360,000	\$ 360,000	\$ -
State grants	432,300	432,300	428,558	(3,742)
Interest and rents	3,300	3,300	3,893	593
Other revenue	<u>1,200</u>	<u>1,200</u>	<u>45</u>	<u>(1,155)</u>
Total revenues	<u>796,800</u>	<u>796,800</u>	<u>792,496</u>	<u>(4,304)</u>
<b>Expenditures:</b>				
Current				
Public works	327,400	232,900	231,925	(975)
Capital outlay	<u>679,200</u>	<u>674,100</u>	<u>674,031</u>	<u>(69)</u>
Total expenditures	<u>1,006,600</u>	<u>907,000</u>	<u>905,956</u>	<u>(1,044)</u>
Change in fund balance	(209,800)	(110,200)	(113,460)	(3,260)
Fund balance, beginning of year	<u>575,358</u>	<u>575,358</u>	<u>575,358</u>	-
Fund balance, end of year	<u>\$ 365,558</u>	<u>\$ 465,158</u>	<u>\$ 461,898</u>	<u>\$ (3,260)</u>

***SUPPLEMENTAL INFORMATION***

# CITY OF LUDINGTON

## NONMAJOR GOVERNMENTAL FUNDS

### COMBINING BALANCE SHEET

December 31, 2012

	<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>
<b>Assets:</b>					
Cash and investments	\$ 242,534	\$ 80,548	\$ 53,017	\$ 81,565	\$ 208,244
Notes receivable	-	-	-	5,207	-
Accrued interest receivable	120	40	27	-	103
Due from other governmental units	25,092	-	-	6,353	-
Prepaid expenditures	1,766	1,472	1,791	-	-
Total assets	<u>\$ 269,512</u>	<u>\$ 82,060</u>	<u>\$ 54,835</u>	<u>\$ 93,125</u>	<u>\$ 208,347</u>
<b>Liabilities and Fund Balances:</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 5,375	\$ 2,514	\$ 4,071	\$ -	\$ -
Accrued expenses	4,553	2,851	2,591	-	-
Due to other funds	-	-	-	450	-
Deferred revenue	-	-	954	-	-
Total liabilities	<u>9,928</u>	<u>5,365</u>	<u>7,616</u>	<u>450</u>	<u>-</u>
<b>Fund balances:</b>					
Nonspendable:					
Prepaid expenditures	1,766	1,472	1,791	-	-
Long-term receivables	-	-	-	5,207	-
Restricted for:					
Streets	257,818	-	-	-	-
Senior center activities	-	-	45,428	-	-
Debt service	-	-	-	-	-
Contamination cleanup activities	-	-	-	-	-
Committed for:					
Recreation activities	-	75,223	-	-	-
Downtown building rehab	-	-	-	87,468	-
Cemetery capital improvements	-	-	-	-	208,347
Total fund balances	<u>259,584</u>	<u>76,695</u>	<u>47,219</u>	<u>92,675</u>	<u>208,347</u>
Total liabilities and fund balances	<u>\$ 269,512</u>	<u>\$ 82,060</u>	<u>\$ 54,835</u>	<u>\$ 93,125</u>	<u>\$ 208,347</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	\$ 26,020	\$ 7,634	\$ 699,564	
-	-	-	5,207	
-	-	-	290	
-	-	-	31,445	
-	-	-	5,029	
<u>\$ 2</u>	<u>\$ 26,020</u>	<u>\$ 7,634</u>	<u>\$ 741,535</u>	
\$ -	\$ -	\$ 650	\$ 12,610	
-	-	-	9,995	
-	-	-	450	
-	26,020	-	26,974	
-	26,020	650	50,029	
-	-	-	5,029	
-	-	-	5,207	
-	-	-	257,818	
-	-	-	45,428	
2	-	-	2	
-	-	6,984	6,984	
-	-	-	75,223	
-	-	-	87,468	
-	-	-	208,347	
<u>2</u>	<u>-</u>	<u>6,984</u>	<u>691,506</u>	
<u>\$ 2</u>	<u>\$ 26,020</u>	<u>\$ 7,634</u>	<u>\$ 741,535</u>	

# CITY OF LUDINGTON

## NONMAJOR GOVERNMENTAL FUNDS

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

Year Ended December 31, 2012

	<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>
<b>Revenues:</b>					
Federal grants	\$ -	\$ -	\$ 11,039	\$ 20,575	\$ -
State grants	186,196	-	500	-	-
Contributions from other units	-	42,050	129,280	-	-
Charges for services	-	45,073	4,837	-	-
Interest and rents	1,996	509	282	-	1,015
Other revenue	1,850	8,172	14,575	10,309	8,125
Total revenues	<u>190,042</u>	<u>95,804</u>	<u>160,513</u>	<u>30,884</u>	<u>9,140</u>
<b>Expenditures:</b>					
Current					
Public works	231,342	-	-	-	-
Health and welfare	-	-	161,481	-	-
Community and economic development	-	-	-	38,329	-
Recreation and culture	-	138,684	-	-	-
Capital outlay	148,785	2,417	-	-	4,590
Debt service					
Principal	-	-	-	-	-
Interest and fees	-	-	-	-	-
Total expenditures	<u>380,127</u>	<u>141,101</u>	<u>161,481</u>	<u>38,329</u>	<u>4,590</u>
Excess (deficiency) of revenues over expenditures	<u>(190,085)</u>	<u>(45,297)</u>	<u>(968)</u>	<u>(7,445)</u>	<u>4,550</u>
<b>Other financing sources (uses):</b>					
Transfers from (to) other funds	114,900	42,000	-	-	(1,015)
Changes in fund balances	(75,185)	(3,297)	(968)	(7,445)	3,535
Fund balances, beginning of year	<u>334,769</u>	<u>79,992</u>	<u>48,187</u>	<u>100,120</u>	<u>204,812</u>
Fund balances, end of year	<u>\$ 259,584</u>	<u>\$ 76,695</u>	<u>\$ 47,219</u>	<u>\$ 92,675</u>	<u>\$ 208,347</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>
\$ -	\$ -	\$ -	\$ 31,614
-	-	-	186,696
-	-	-	171,330
-	-	-	49,910
-	-	-	3,802
-	-	-	43,031
-	-	-	486,383
-	-	-	231,342
-	-	-	161,481
-	-	41,429	79,758
-	4,043	-	142,727
-	-	-	155,792
190,000	-	-	190,000
72,440	-	-	72,440
262,440	4,043	41,429	1,033,540
(262,440)	(4,043)	(41,429)	(547,157)
262,440	4,043	-	422,368
-	-	(41,429)	(124,789)
2	-	48,413	816,295
\$ 2	\$ -	\$ 6,984	\$ 691,506

# CITY OF LUDINGTON

## INTERNAL SERVICE FUNDS

### COMBINING STATEMENT OF NET POSITION

December 31, 2012

	<u>Motor Pool</u> <u>Fund</u>	<u>Technology</u> <u>Fund</u>	<u>Total</u>
<b>Assets:</b>			
<b>Current assets:</b>			
Cash and investments	\$ 170,002	\$ (10,653)	\$ 159,349
Accounts receivable	12,707	-	12,707
Accrued interest receivable	84	-	84
Due from other governmental units	657	-	657
Inventory	89,987	-	89,987
Prepaid expenses	35,543	3,047	38,590
Total current assets	<u>308,980</u>	<u>(7,606)</u>	<u>301,374</u>
<b>Noncurrent assets:</b>			
Capital assets:			
Nondepreciable capital assets	4,250	-	4,250
Depreciable capital assets, net	<u>2,856,320</u>	<u>50,440</u>	<u>2,906,760</u>
Total noncurrent assets	<u>2,860,570</u>	<u>50,440</u>	<u>2,911,010</u>
Total assets	<u>3,169,550</u>	<u>42,834</u>	<u>3,212,384</u>
<b>Liabilities:</b>			
<b>Current liabilities:</b>			
Accounts payable	54,198	6,882	61,080
Accrued expenses	<u>5,571</u>	<u>-</u>	<u>5,571</u>
Total current liabilities	<u>59,769</u>	<u>6,882</u>	<u>66,651</u>
<b>Noncurrent liabilities:</b>			
Compensated absences payable	<u>6,981</u>	<u>-</u>	<u>6,981</u>
Total liabilities	<u>66,750</u>	<u>6,882</u>	<u>73,632</u>
<b>Net position:</b>			
Invested in capital assets, net of related debt	2,860,570	50,440	2,911,010
Unrestricted (deficit)	<u>242,230</u>	<u>(14,488)</u>	<u>227,742</u>
Total net position	<u>\$ 3,102,800</u>	<u>\$ 35,952</u>	<u>\$ 3,138,752</u>

# CITY OF LUDINGTON

## INTERNAL SERVICE FUNDS

### COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION Year Ended December 31, 2012

	<i>Motor Pool</i> <u>Fund</u>	<i>Technology</i> <u>Fund</u>	<u>Total</u>
<b>Operating revenues:</b>			
Equipment rental - interfund charges	\$ 581,417	\$ 106,063	\$ 687,480
Other	178,196	-	178,196
Total operating revenues	<u>759,613</u>	<u>106,063</u>	<u>865,676</u>
<b>Operating expenses:</b>			
Personnel	174,492	-	174,492
Fringe benefits	96,320	-	96,320
Supplies	324,298	29,113	353,411
Contracted services	9,546	54,683	64,229
Administrative expense	55,700	-	55,700
Telephone	2,718	-	2,718
Education and training	640	-	640
Insurance	60,520	-	60,520
Utilities	28,940	-	28,940
Repairs and maintenance	108,418	2,482	110,900
Equipment rental	1,747	-	1,747
Other services and supplies	120	7,019	7,139
Depreciation	197,099	12,766	209,865
Total operating expenses	<u>1,060,558</u>	<u>106,063</u>	<u>1,166,621</u>
Operating income (loss)	<u>(300,945)</u>	<u>-</u>	<u>(300,945)</u>
<b>Non-operating revenues (expenses):</b>			
Interest income	1,755	-	1,755
Net gain on sale/disposal of capital assets	7,630	-	7,630
Net non-operating revenues	<u>9,385</u>	<u>-</u>	<u>9,385</u>
Changes in net position	(291,560)	-	(291,560)
Net position, beginning of year	<u>3,394,360</u>	<u>35,952</u>	<u>3,430,312</u>
Net position, end of year	<u>\$ 3,102,800</u>	<u>\$ 35,952</u>	<u>\$ 3,138,752</u>

# CITY OF LUDINGTON

## INTERNAL SERVICE FUNDS

### COMBINING STATEMENT OF CASH FLOWS

Year Ended December 31, 2012

	<i>Motor Pool Fund</i>	<i>Technology Fund</i>	<i>Total</i>
<b>Cash flows from operating activities:</b>			
Cash received from customers	\$ 179,021	\$ -	\$ 179,021
Cash received from interfund services	581,417	106,063	687,480
Cash payments to employees	(174,721)	-	(174,721)
Cash payments to suppliers for goods and services	(673,229)	(90,111)	(763,340)
Net cash provided (used) by operating activities	<u>(87,512)</u>	<u>15,952</u>	<u>(71,560)</u>
<b>Cash flows from capital and related financing activities:</b>			
Net gain on sale/disposal of capital asset	7,630	-	7,630
Acquisition of capital assets	(47,235)	(27,255)	(74,490)
Net cash provided by capital and related financing activities	<u>(39,605)</u>	<u>(27,255)</u>	<u>(66,860)</u>
<b>Cash flows from investing activities:</b>			
Interest received	1,770	-	1,770
Net increase (decrease) in cash and investments	(125,347)	(11,303)	(136,650)
Cash and investments, beginning of year	295,349	650	295,999
Cash and investments, end of year	<u>\$ 170,002</u>	<u>\$ (10,653)</u>	<u>\$ 159,349</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>			
Operating income (loss)	\$ (300,945)	\$ -	\$ (300,945)
Adjustments:			
Depreciation	197,099	12,766	209,865
Change in assets and liabilities:			
Accounts receivable	423	-	423
Due from other governmental units	402	-	402
Inventory	(36,164)	-	(36,164)
Prepaid expenses	6,745	(3,047)	3,698
Accounts payable	45,157	6,233	51,390
Accrued expenses	778	-	778
Compensated absences payable	(1,007)	-	(1,007)
Net cash provided (used) by operating activities	<u>\$ (87,512)</u>	<u>\$ 15,952</u>	<u>\$ (71,560)</u>

# CITY OF LUDINGTON

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## GOVERNMENTAL ACTIVITIES

### SCHEDULE OF INDEBTEDNESS

December 31, 2012

#### 2005 BUILDING AUTHORITY REFUNDING BONDS

Issue in the amount of	\$ 2,135,000
Less: Principal paid in prior years	(275,000)
Principal paid in current year	<u>(190,000)</u>
Balance payable at December 31, 2012	<u>\$ 1,670,000</u>

Balance payable as follows:

<i>Fiscal Year Ended</i>	<i>Interest Rate</i>	<i>Interest due February 1</i>	<i>Interest due August 1</i>	<i>Principal due August 1</i>	<i>Total Annual Requirement</i>
2013	4.00%	\$ 32,658	\$ 32,657	\$ 195,000	\$ 260,315
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>\$ 138,215</u>	<u>\$ 138,215</u>	<u>\$ 1,670,000</u>	<u>\$ 1,946,430</u>

# CITY OF LUDINGTON

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## BUSINESS-TYPE ACTIVITIES

### SCHEDULE OF INDEBTEDNESS

December 31, 2012

#### 2007 SEWAGE DISPOSAL SYSTEM JUNIOR LIEN REVENUE BONDS

Issue in the amount of	\$ 1,500,000
Less: Principal paid in prior years	(260,000)
Principal paid in current year	<u>(70,000)</u>
Balance payable at December 31, 2012	<u>\$ 1,170,000</u>

Balance payable as follows:

<i>Fiscal Year Ended</i>	<i>Interest Rate</i>	<i>Interest due April 1</i>	<i>Interest due October 1</i>	<i>Principal due October 1</i>	<i>Total Annual Requirement</i>
2013	1.625%	\$ 9,506	\$ 9,506	\$ 70,000	\$ 89,012
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>\$ 78,813</u>	<u>\$ 78,813</u>	<u>\$ 1,170,000</u>	<u>\$ 1,327,626</u>



**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, 2012, 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 19, 2013.

**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 charge 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 and 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.

*Berchume & Co.*

Saginaw, Michigan  
March 19, 2013