

CITY OF LUDINGTON

Mason County, Michigan

FINANCIAL STATEMENTS

December 31, 2014

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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Ludington as of December 31, 2014, 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

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2014 the City adopted new accounting guidance, *GASB Statement No. 67, Financial Reporting for Pension Plans*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 4 through 9), schedules of pension plans and other postemployment benefits funding progress (pages 49 through 51), and budgetary comparison information (pages 52 through 54) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2015 on our consideration of the City of Ludington's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Ludington's internal control over financial reporting and compliance.

Berthiaume & Co.

Saginaw, Michigan
March 9, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF LUDINGTON

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2014

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, 2014. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the financial statements and the notes to the financial statements.

FINANCIAL HIGHLIGHTS:

- The City's combined total net position is reported as \$31,859,403 for the year ended December 31, 2014, compared to \$32,078,674 for the year ended December 31, 2013.
- In the City's governmental activities, revenues generated were \$6,709,075 while expenses totaled \$6,531,660.
- In the City's business-type activities, revenues generated were \$3,715,909 while expenses totaled \$4,125,543.
- Total net position decreased by \$219,271.

OVERVIEW OF THE FINANCIAL STATEMENTS:

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

Government-wide Financial Statements:

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

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

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

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

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

CITY OF LUDINGTON

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2014

Fund Financial Statements:

The fund financial statements provide more detailed information about the City's most significant funds, not the City as a whole. 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 has three types of funds:

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

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

The City maintains nine (9) individual governmental funds. Separate information is presented for the General Fund and Major Street Fund, which are considered to be "major" funds. Data from the other seven (7) governmental funds, considered to be "nonmajor" funds, are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

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

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

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

Fiduciary Funds – Fiduciary funds are used to account for the resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of the funds are not available to support the City's own programs.

Notes to the Financial Statements:

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

Other Information:

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

CITY OF LUDINGTON

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2014

CITY OF LUDINGTON AS A WHOLE:

The City's total combined net position for the year ended December 31, 2014 is \$31,859,403, consisting of \$13,385,480 in governmental activities and \$18,473,923 in business-type activities.

Combined unrestricted net position, that part of net position that can be used to finance day-to-day operations, is \$3,691,301. Governmental activities unrestricted total is \$2,148,871, while business-type activities is \$1,542,430.

The following table shows comparisons of total assets, deferred outflows and inflows, total liabilities, and total net position in a condensed format for the government-wide net position at December 31:

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Assets:						
Current assets	\$ 7,004,482	\$ 7,367,637	\$ 2,779,006	\$ 2,213,190	\$ 9,783,488	\$ 9,580,827
Noncurrent assets:						
Restricted assets	-	-	220,000	1,136,017	220,000	1,136,017
Capital assets	<u>12,153,460</u>	<u>11,856,386</u>	<u>16,785,476</u>	<u>16,961,124</u>	<u>28,938,936</u>	<u>28,817,510</u>
Total assets	<u>19,157,942</u>	<u>19,224,023</u>	<u>19,784,482</u>	<u>20,310,331</u>	<u>38,942,424</u>	<u>39,534,354</u>
Deferred outflow of resources:						
Deferred charge on refunding	<u>35,386</u>	<u>48,640</u>	<u>-</u>	<u>-</u>	<u>35,386</u>	<u>48,640</u>
Liabilities:						
Other liabilities	349,433	559,065	213,744	265,660	563,177	824,725
Long-term liabilities	<u>1,578,150</u>	<u>1,781,495</u>	<u>1,096,815</u>	<u>1,160,555</u>	<u>2,674,965</u>	<u>2,942,050</u>
Total liabilities	<u>1,927,583</u>	<u>2,340,560</u>	<u>1,310,559</u>	<u>1,426,215</u>	<u>3,238,142</u>	<u>3,766,775</u>
Deferred inflow of resources:						
Property tax levied in advance	3,854,880	3,737,545	-	-	3,854,880	3,737,545
State grant for next year	<u>25,385</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,385</u>	<u>-</u>
Total deferred inflow	<u>3,880,265</u>	<u>3,737,545</u>	<u>-</u>	<u>-</u>	<u>3,880,265</u>	<u>3,737,545</u>
Net position:						
Net investment in capital assets	10,825,845	10,300,981	15,755,476	15,861,124	26,581,321	26,162,105
Restricted	410,764	617,291	1,176,017	1,136,017	1,586,781	1,753,308
Unrestricted	<u>2,148,871</u>	<u>2,276,286</u>	<u>1,542,430</u>	<u>1,886,975</u>	<u>3,691,301</u>	<u>4,163,261</u>
Total net position	<u>\$13,385,480</u>	<u>\$13,194,558</u>	<u>\$18,473,923</u>	<u>\$18,884,116</u>	<u>\$31,859,403</u>	<u>\$32,078,674</u>

The City's combined total net position decreased by \$219,271 during the current year. Governmental activities increased by \$190,922 while business-type activities decreased by \$410,193.

CITY OF LUDINGTON

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2014

The following table shows comparison of the change in net position in a condensed format for the years ended December 31:

	<i>Governmental</i>		<i>Business-type</i>		<i>Total</i>	
	<i>Activities</i>		<i>Activities</i>			
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Revenues:						
Program revenues						
Charges for services	\$ 692,271	\$ 1,104,567	\$ 3,700,302	\$ 3,738,893	\$ 4,392,573	\$ 4,843,460
Operating grants	1,015,835	1,374,029	-	54,069	1,015,835	1,428,098
Capital grants	375,236	2,128,392	-	-	375,236	2,128,392
General revenues						
Property taxes	3,747,599	3,661,987	-	-	3,747,599	3,661,987
Franchise fees	84,774	80,059	-	-	84,774	80,059
State revenue sharing	745,527	723,995	-	-	745,527	723,995
Investment earnings	18,300	23,079	10,140	14,577	28,440	37,656
Other	29,533	-	5,467	4,320	35,000	4,320
Total revenues	<u>6,709,075</u>	<u>9,096,108</u>	<u>3,715,909</u>	<u>3,811,859</u>	<u>10,424,984</u>	<u>12,907,967</u>
Expenses:						
General government	1,485,838	1,507,105	-	-	1,485,838	1,507,105
Public safety	1,766,552	1,752,548	-	-	1,766,552	1,752,548
Public works	2,203,353	2,401,016	-	-	2,203,353	2,401,016
Health and welfare	189,924	174,167	-	-	189,924	174,167
Community and economic development	110,321	448,969	-	-	110,321	448,969
Recreation and culture	708,402	694,248	-	-	708,402	694,248
Interest on long-term debt	67,270	77,116	-	-	67,270	77,116
Sewer	-	-	1,396,697	1,353,979	1,396,697	1,353,979
Water	-	-	1,632,866	1,562,914	1,632,866	1,562,914
Marina	-	-	896,764	1,036,983	896,764	1,036,983
Cartier Park Campground	-	-	199,216	171,445	199,216	171,445
Total expenses	<u>6,531,660</u>	<u>7,055,169</u>	<u>4,125,543</u>	<u>4,125,321</u>	<u>10,657,203</u>	<u>11,180,490</u>
Excess of revenues over expenses before other	<u>177,415</u>	<u>2,040,939</u>	<u>(409,634)</u>	<u>(313,462)</u>	<u>(232,219)</u>	<u>1,727,477</u>
Other items:						
Sale of capital assets	12,948	17,081	-	-	12,948	17,081
Transfers	559	973	(559)	(973)	-	-
Total other items	<u>13,507</u>	<u>18,054</u>	<u>(559)</u>	<u>(973)</u>	<u>12,948</u>	<u>17,081</u>
Changes in net position	<u>190,922</u>	<u>2,058,993</u>	<u>(410,193)</u>	<u>(314,435)</u>	<u>(219,271)</u>	<u>1,744,558</u>
Net position, beginning of year	<u>13,194,558</u>	<u>11,135,565</u>	<u>18,884,116</u>	<u>19,198,551</u>	<u>32,078,674</u>	<u>30,334,116</u>
Net position, end of year	<u>\$ 13,385,480</u>	<u>\$ 13,194,558</u>	<u>\$ 18,473,923</u>	<u>\$ 18,884,116</u>	<u>\$ 31,859,403</u>	<u>\$ 32,078,674</u>

CITY OF LUDINGTON

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2014

CITY OF LUDINGTON'S FUNDS:

Presentation of the City of Ludington's major funds begins on page 14, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. Funds are created to help manage money for specific purposes, as well as show accountability for certain activities, such as specific property tax millages and restricted receipts from Federal and State sources.

The General Fund is the City's largest governmental fund and one of two governmental funds that is considered a major fund. It pays for most of the City's government services. Its major components of revenue are property taxes and state shared revenue. For the year ended December 31, 2014, General Fund financing uses exceeded its financing sources by \$92,421, decreasing its ending fund balance to \$1,491,139. The City's second major governmental fund, the Major Street Fund decreased its ending fund balance by \$224,267.

General Fund Budgetary Highlights:

The General Fund budget, as originally adopted, projected a net decrease in fund balance of \$154,200. During the year, the City made budget amendments that changed the projected net decrease in fund balance to \$79,000. The actual results for the year yielded a net decrease in fund balance of \$92,421.

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

- Revenue sharing (constitutional and EVIP) increased \$44,800
- Sidewalk construction payments from residents increased \$12,100
- Grave openings and sale of gravesites increased \$14,150
- Building permit fees increased \$9,800

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

- The City's pension cost increased \$42,300 more than anticipated over all of the City's funds due to closing of the B-4 pension plan in 2011. All new employees hired on or after June 1, 2011 are now on a less expensive pension plan. Other benefit increases were in workers' compensation and in health insurance taxes as a result of the Affordable Care Act.
- Increase in sidewalk construction payments of \$10,200 over original budget, however, this cost was offset by the increase in sidewalk revenue.
- The City spent an additional \$5,300 in fees paid for legal expenses related to the negotiation and settlement of two union contracts that expired in 2014 and also for responding to FOIA requests.
- The City spent \$17,520 to demolish the former Piszczek building at 321 South James Street. This cost was not budgeted.
- Building permit costs were \$7,400 higher than budgeted, however, this cost was offset by the increase in building permit revenue.

Capital Assets and Debt Administration:

At December 31, 2014, the City of Ludington had \$28,938,936 invested in capital assets including land, buildings, equipment, land improvements, water and sewer lines and other infrastructure, net of accumulated depreciation. At December 31, 2013, this total was \$28,817,510. Additional information about the City's capital assets is presented in Note 1 and Note 5 of the Notes to the Financial Statements.

CITY OF LUDINGTON

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2014

Capital Assets and Debt Administration, continued:

At December 31, 2014, the City of Ludington's total long-term indebtedness (not including liabilities for employee compensated absences and net OPEB obligation) was \$2,357,615, of which \$1,327,615 was backed by the full faith and credit of the City and the remaining \$1,030,000 is backed solely by specified revenue sources. Additional information about the City's indebtedness is presented in Note 6 of the Notes to the Financial Statements.

Economic Factors:

The City continues to maintain positive fund balances in each of its funds. Revenue-Sharing payments from the State of Michigan are increasing slightly. Tax assessments have begun to increase slightly but the continued large increases in health insurance and the upcoming GASB statements that will require recognition of the unfunded portion of pension plans continue to challenge the City's financial outlook.

Certain expenses continue to rise at a rate higher than inflation, such as health insurance, the applicable fees and taxes associated with the Affordable Care Act, retirement costs, utility costs and fuel expenses.

The City has approved a budget for 2015 where the revenues and expenditures are equal. Because of the uncertainty given the current economic environment, the City has again completed a three-year financial projection through the year 2017 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.

The City will issue bonds not to exceed \$13 million to finance the cost to upgrade the water treatment plant and the water distribution system pursuant to the requirement of the Michigan Department of Environmental Quality (MDEQ). In addition, the City will be adjusting the water rate and the water readiness-to-serve charge over the next several years to cover operating expenses, capital expenses, debt service and depreciation expenses associated with the costs to upgrade the water treatment plant and water distribution system and to provide ongoing operational expenses.

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, 2014

	<i>Primary Government</i>			<i>Component Unit</i>
	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Total</i>	
Assets:				
Cash and investments	\$ 2,020,842	\$ 2,141,763	\$ 4,162,605	\$ 175,740
Receivables	4,234,962	602,216	4,837,178	118,364
Internal balances	303,132	(303,132)	-	-
Inventory	145,414	210,413	355,827	-
Prepaid expenses	300,132	127,746	427,878	7,461
Restricted cash and investments	-	220,000	220,000	-
Capital assets:				
Capital assets not being depreciated	262,280	880,826	1,143,106	-
Capital assets being depreciated, net	<u>11,891,180</u>	<u>15,904,650</u>	<u>27,795,830</u>	<u>12,237</u>
Total assets	<u>19,157,942</u>	<u>19,784,482</u>	<u>38,942,424</u>	<u>313,802</u>
Deferred outflow of resources:				
Deferred charge on refunding	<u>35,386</u>	<u>-</u>	<u>35,386</u>	<u>-</u>
Liabilities:				
Accounts payable and accrued expenses	274,082	106,318	380,400	10,020
Unearned revenue	75,351	107,426	182,777	-
Long-term liabilities:				
Due within one year	242,832	70,000	312,832	-
Due in more than one year	<u>1,335,318</u>	<u>1,026,815</u>	<u>2,362,133</u>	<u>-</u>
Total liabilities	<u>1,927,583</u>	<u>1,310,559</u>	<u>3,238,142</u>	<u>10,020</u>
Deferred inflow of resources:				
Property taxes levied in advance	3,854,880	-	3,854,880	112,136
State grant applicable to next year	<u>25,385</u>	<u>-</u>	<u>25,385</u>	<u>-</u>
Total deferred inflow of resources	<u>3,880,265</u>	<u>-</u>	<u>3,880,265</u>	<u>112,136</u>
Net position:				
Net investment in capital assets	10,825,845	15,755,476	26,581,321	12,237
Restricted for:				
Debt service	2	220,000	220,002	-
Equipment replacement	-	956,017	956,017	-
Senior center activities	41,751	-	41,751	-
Streets	369,011	-	369,011	-
Unrestricted	<u>2,148,871</u>	<u>1,542,430</u>	<u>3,691,301</u>	<u>179,409</u>
Total net position	<u>\$ 13,385,480</u>	<u>\$ 18,473,923</u>	<u>\$ 31,859,403</u>	<u>\$ 191,646</u>

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

CITY OF LUDINGTON

STATEMENT OF ACTIVITIES

Year Ended December 31, 2014

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Functions/Programs					
PRIMARY GOVERNMENT:					
<i>Governmental activities:</i>					
General government	\$ 1,485,838	\$ 368,937	\$ 694	\$ -	\$ (1,116,207)
Public safety	1,766,552	105,497	57,752	-	(1,603,303)
Public works	2,203,353	104,246	717,603	375,236	(1,006,268)
Health and welfare	189,924	7,758	169,487	-	(12,679)
Community and economic development	110,321	950	9,377	-	(99,994)
Recreation and culture	708,402	104,883	60,922	-	(542,597)
Interest on long-term debt	<u>67,270</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(67,270)</u>
Total governmental activities	<u>6,531,660</u>	<u>692,271</u>	<u>1,015,835</u>	<u>375,236</u>	<u>(4,448,318)</u>
<i>Business-type activities:</i>					
Sewer	1,396,697	1,364,208	-	-	(32,489)
Water	1,632,866	1,330,893	-	-	(301,973)
Marina	896,764	807,723	-	-	(89,041)
Cartier Park Campground	<u>199,216</u>	<u>197,478</u>	<u>-</u>	<u>-</u>	<u>(1,738)</u>
Total business-type activities	<u>4,125,543</u>	<u>3,700,302</u>	<u>-</u>	<u>-</u>	<u>(425,241)</u>
Total primary government	<u>\$ 10,657,203</u>	<u>\$ 4,392,573</u>	<u>\$ 1,015,835</u>	<u>\$ 375,236</u>	<u>\$ (4,873,559)</u>
COMPONENT UNIT:					
Downtown development authority	<u>\$ 167,992</u>	<u>\$ 3,048</u>	<u>\$ 70,848</u>	<u>\$ -</u>	<u>\$ (94,096)</u>

continued

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

CITY OF LUDINGTON

STATEMENT OF ACTIVITIES, CONTINUED

Year Ended December 31, 2014

	<i>Primary Government</i>			<i>Component Unit</i>
	<i>Governmental Activities</i>	<i>Business- type Activities</i>	<i>Total</i>	
<i>Changes in net position:</i>				
Net (Expense) Revenue	\$ (4,448,318)	\$ (425,241)	\$ (4,873,559)	\$ (94,096)
General revenues:				
Taxes:				
Property taxes, levied for general purpose	3,669,702	-	3,669,702	-
Property taxes, levied and captured by DDA	-	-	-	110,891
Payment in lieu of taxes	77,897	-	77,897	-
Franchise fees	84,774	-	84,774	-
Grants and contributions not restricted to specific programs	745,527	-	745,527	-
Unrestricted investment earnings	18,300	10,140	28,440	1,007
Other	29,533	5,467	35,000	-
Special item - Gain (loss) on sale of capital asset	12,948	-	12,948	-
Transfers	559	(559)	-	-
Total general revenues and other	<u>4,639,240</u>	<u>15,048</u>	<u>4,654,288</u>	<u>111,898</u>
Changes in net position	190,922	(410,193)	(219,271)	17,802
Net position, beginning of year	<u>13,194,558</u>	<u>18,884,116</u>	<u>32,078,674</u>	<u>173,844</u>
Net position, end of year	<u>\$ 13,385,480</u>	<u>\$ 18,473,923</u>	<u>\$ 31,859,403</u>	<u>\$ 191,646</u>

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

CITY OF LUDINGTON

GOVERNMENTAL FUNDS

BALANCE SHEET

December 31, 2014

	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Assets:				
Cash and investments	\$ 1,168,639	\$ 80,574	\$ 690,646	\$ 1,939,859
Taxes receivable	3,854,880	-	-	3,854,880
Accounts receivable	69,284	68	-	69,352
Special assessments receivable	3,154	-	-	3,154
Notes receivable	-	-	5,207	5,207
Accrued interest receivable	957	66	428	1,451
Due from other governments	150,958	68,056	65,972	284,986
Due from other funds	11,365	-	-	11,365
Inventory	27,617	45,065	-	72,682
Prepaid expenditures	232,638	1,463	8,255	242,356
Total assets	<u>\$ 5,519,492</u>	<u>\$ 195,292</u>	<u>\$ 770,508</u>	<u>\$ 6,485,292</u>
Liabilities:				
Accounts payable	\$ 101,121	\$ 36,750	\$ 25,188	\$ 163,059
Accrued expenses	37,536	1,473	3,896	42,905
Due to other governments	500	-	3,486	3,986
Deposits payable	9,985	-	-	9,985
Unearned revenue	24,331	-	51,020	75,351
Total liabilities	<u>173,473</u>	<u>38,223</u>	<u>83,590</u>	<u>295,286</u>
Deferred inflows of resources:				
Property taxes levied in advance	3,854,880	-	-	3,854,880
State grant applicable to next year	-	-	25,385	25,385
Total deferred inflows of resources	<u>3,854,880</u>	<u>-</u>	<u>25,385</u>	<u>3,880,265</u>
Fund balances:				
Nonspendable	260,255	46,528	13,462	320,245
Restricted	-	110,541	300,223	410,764
Committed	-	-	347,848	347,848
Assigned	3,544	-	-	3,544
Unassigned	1,227,340	-	-	1,227,340
Total fund balances	<u>1,491,139</u>	<u>157,069</u>	<u>661,533</u>	<u>2,309,741</u>
Total liabilities, deferred inflows of, resources, and fund balances	<u>\$ 5,519,492</u>	<u>\$ 195,292</u>	<u>\$ 770,508</u>	<u>\$ 6,485,292</u>

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

CITY OF LUDINGTON

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

December 31, 2014

Fund balances of governmental funds			\$ 2,309,741
Net position reported for governmental activities in the statement of net position is different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.			
Governmental capital assets	11,912,044		
Less accumulated depreciation	<u>(2,500,000)</u>	9,412,044	
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.			35,386
Interest payable in the governmental activities is not payable from current resources and therefore is not reported in the governmental funds.			(20,465)
Net other postemployment benefit obligation (OPEB) is not reported in the governmental funds.			(153,412)
Long-term liabilities are not due and payable in the current year and therefore are not reported in the governmental funds.			
Bonds payable	(1,327,615)		
Compensated absences payable	<u>(89,655)</u>	(1,417,270)	
A portion of the net position (including capital assets of \$2,741,416) and liabilities of the internal service funds are included in the governmental activities in the statement of net position (net of (\$303,132) allocation to business-type activities).			<u>3,219,456</u>
Net position of governmental activities			<u>\$13,385,480</u>

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

CITY OF LUDINGTON

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended December 31, 2014

	<i>General Fund</i>	<i>Major Street Fund</i>	<i>Nonmajor Funds</i>	<i>Total</i>
Revenues:				
Property taxes	\$ 3,747,599	\$ -	\$ -	\$ 3,747,599
Licenses and permits	109,607	-	-	109,607
Federal grants	16,977	236	20,336	37,549
Federal grants - MDOT pass through	-	375,000	-	375,000
State grants	766,264	464,059	254,444	1,484,767
Contributions from other units	65,635	-	191,523	257,158
Charges for services	531,283	-	48,436	579,719
Fines and forfeits	33,348	-	-	33,348
Interest and rents	18,132	967	3,729	22,828
Other revenue	130,841	-	39,296	170,137
Total revenues	5,419,686	840,262	557,764	6,817,712
Expenditures:				
Current				
General government	1,453,632	-	-	1,453,632
Public safety	1,703,448	-	-	1,703,448
Public works	1,275,688	310,511	354,965	1,941,164
Health and welfare	-	-	185,036	185,036
Community and economic development	99,006	-	10,412	109,418
Recreation and culture	472,838	-	153,619	626,457
Other	37,769	-	-	37,769
Capital outlay	17,248	379,018	-	396,266
Capital outlay - MDOT pass through	-	375,000	-	375,000
Debt service				
Principal	17,790	-	210,000	227,790
Interest and fees	-	-	57,515	57,515
Total expenditures	5,077,419	1,064,529	971,547	7,113,495
Excess (deficiency) of revenues over expenditures	342,267	(224,267)	(413,783)	(295,783)
Other financing sources (uses):				
Transfers from (to) other funds	(434,688)	-	435,247	559
Changes in fund balances	(92,421)	(224,267)	21,464	(295,224)
Fund balances, beginning of year	1,583,560	381,336	640,069	2,604,965
Fund balances, end of year	\$ 1,491,139	\$ 157,069	\$ 661,533	\$ 2,309,741

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

CITY OF LUDINGTON

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

Year Ended December 31, 2014

Changes in fund balances of governmental funds			\$ (295,224)
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		770,581	
Less depreciation expense		<u>(411,673)</u>	358,908
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.			(13,254)
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.			227,790
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.			(21,608)
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		(1,720)	
Change in accrued interest on bonds		<u>3,499</u>	1,779
Certain changes in net position of internal service funds are reported with governmental activities in the statement of activities (net of (\$15,736) allocation to business-type activities.			<u>(67,469)</u>
Change in net position of governmental activities			<u>\$ 190,922</u>

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

CITY OF LUDINGTON

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

December 31, 2014

	<i>Enterprise Funds</i>					<i>Internal Service Funds</i>
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Marina Fund</i>	<i>Nonmajor Cartier Park Campground Fund</i>	<i>Total</i>	
Assets:						
Current assets:						
Cash and investments	\$ 803,536	\$ 679,842	\$ 468,400	\$ 189,985	\$ 2,141,763	\$ 80,983
Accounts receivable	308,464	291,831	-	-	600,295	15,023
Accrued interest receivable	832	553	381	155	1,921	66
Due from other governments	-	-	-	-	-	843
Inventory	45,414	139,016	25,983	-	210,413	72,732
Prepaid expenses	41,427	70,874	12,663	2,782	127,746	57,776
Total current assets	<u>1,199,673</u>	<u>1,182,116</u>	<u>507,427</u>	<u>192,922</u>	<u>3,082,138</u>	<u>227,423</u>
Noncurrent assets:						
Restricted cash and investments	220,000	-	-	-	220,000	-
Capital assets:						
Capital assets not being depreciated	72,415	17,018	791,393	-	880,826	4,250
Capital assets being depreciated, net	<u>8,160,800</u>	<u>5,969,978</u>	<u>1,620,160</u>	<u>153,712</u>	<u>15,904,650</u>	<u>2,737,166</u>
Total noncurrent assets	<u>8,453,215</u>	<u>5,986,996</u>	<u>2,411,553</u>	<u>153,712</u>	<u>17,005,476</u>	<u>2,741,416</u>
Total assets	<u>9,652,888</u>	<u>7,169,112</u>	<u>2,918,980</u>	<u>346,634</u>	<u>20,087,614</u>	<u>2,968,839</u>
Liabilities:						
Current liabilities:						
Accounts payable	36,199	33,173	11,986	2,331	83,689	30,462
Accrued expenses	6,330	10,033	813	553	17,729	3,220
Deposits payable	-	4,900	-	-	4,900	-
Unearned revenue	-	-	107,426	-	107,426	-
Current long-term debt	<u>70,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>70,000</u>	<u>-</u>
Total current liabilities	<u>112,529</u>	<u>48,106</u>	<u>120,225</u>	<u>2,884</u>	<u>283,744</u>	<u>45,047</u>
Noncurrent liabilities:						
Compensated absences payable	16,055	26,757	5,538	118	48,468	7,468
Long-term debt	960,000	-	-	-	960,000	-
Net OPEB obligation	<u>6,126</u>	<u>10,925</u>	<u>1,296</u>	<u>-</u>	<u>18,347</u>	<u>-</u>
Total noncurrent liabilities	<u>982,181</u>	<u>37,682</u>	<u>6,834</u>	<u>118</u>	<u>1,026,815</u>	<u>7,468</u>
Total liabilities	<u>1,094,710</u>	<u>85,788</u>	<u>127,059</u>	<u>3,002</u>	<u>1,310,559</u>	<u>52,515</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, 2014

	<u>Enterprise Funds</u>					<u>Total</u>	<u>Internal Service Funds</u>
	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Marina Fund</u>	<u>Nonmajor Cartier Park Campground Fund</u>			
Net position:							
Net investment in capital assets	7,203,215	5,986,996	2,411,553	153,712	15,755,476	2,741,416	
Restricted for:							
Debt service	220,000	-	-	-	220,000	-	
Equipment replacement	307,004	649,013	-	-	956,017	-	
Unrestricted	<u>827,959</u>	<u>447,315</u>	<u>380,368</u>	<u>189,920</u>	<u>1,845,562</u>	<u>174,908</u>	
Total net position	<u>\$ 8,558,178</u>	<u>\$ 7,083,324</u>	<u>\$ 2,791,921</u>	<u>\$ 343,632</u>	\$ 18,777,055	<u>\$ 2,916,324</u>	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.					(303,132)		
Net position of business-type activities					<u>\$ 18,473,923</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, 2014

	<i>Enterprise Funds</i>					<i>Internal Service Funds</i>
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Marina Fund</i>	<i>Nonmajor</i>		
				<i>Cartier Park Campground Fund</i>	<i>Total</i>	
Operating revenues:						
Charges for services	\$ 1,346,808	\$ 1,197,240	\$ 807,278	\$ 182,337	\$ 3,533,663	\$ -
Equipment rental	-	-	-	-	-	979,288
Other	17,400	29,765	445	15,141	62,751	199,281
Total operating revenues	<u>1,364,208</u>	<u>1,227,005</u>	<u>807,723</u>	<u>197,478</u>	<u>3,596,414</u>	<u>1,178,569</u>
Operating expenses:						
Personal services	510,339	860,345	158,373	100,032	1,629,089	319,436
Contracted services	75,213	96,547	45,517	10,933	228,210	74,470
Administrative expense	77,200	77,200	44,900	38,600	237,900	57,900
Insurance	28,327	28,327	7,869	-	64,523	55,080
Utilities	233,788	148,933	27,241	15,181	425,143	43,042
Repairs and maintenance	15,745	31,044	8,715	2,021	57,525	110,371
Other services and expenses	187,535	152,740	497,665	27,468	865,408	396,012
Depreciation	244,229	230,551	105,234	4,120	584,134	213,974
Total operating expenses	<u>1,372,376</u>	<u>1,625,687</u>	<u>895,514</u>	<u>198,355</u>	<u>4,091,932</u>	<u>1,270,285</u>
Operating income (loss)	<u>(8,168)</u>	<u>(398,682)</u>	<u>(87,791)</u>	<u>(877)</u>	<u>(495,518)</u>	<u>(91,716)</u>
Non-operating revenues (expenses):						
Interest income	3,351	3,846	1,974	969	10,140	580
Rental income	-	103,888	-	-	103,888	-
Net gain on sale of assets	-	-	-	-	-	7,931
Other income - Scrap sales	41	5,426	-	-	5,467	-
Interest expense	<u>(17,875)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(17,875)</u>	<u>-</u>
Net non-operating	<u>(14,483)</u>	<u>113,160</u>	<u>1,974</u>	<u>969</u>	<u>101,620</u>	<u>8,511</u>

continued

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

CITY OF LUDINGTON

PROPRIETARY FUNDS

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

Year Ended December 31, 2014

	<i>Enterprise Funds</i>					
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Marina Fund</i>	<i>Nonmajor Cartier Park Campground Fund</i>	<i>Total</i>	<i>Internal Service Funds</i>
Changes in net position before transfers	(22,651)	(285,522)	(85,817)	92	(393,898)	(83,205)
Transfers to other funds	-	-	(559)	-	(559)	-
Changes in net position	(22,651)	(285,522)	(86,376)	92	(394,457)	(83,205)
Net position, beginning of year	<u>8,580,829</u>	<u>7,368,846</u>	<u>2,878,297</u>	<u>343,540</u>		<u>2,999,529</u>
Net position, end of year	<u>\$ 8,558,178</u>	<u>\$ 7,083,324</u>	<u>\$ 2,791,921</u>	<u>\$ 343,632</u>		<u>\$ 2,916,324</u>
Adjustment to reflect the consolidation of internal service fund activities to enterprise funds.					<u>(15,736)</u>	
Changes in net position of business-type activities					<u>\$ (410,193)</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, 2014

	<u>Enterprise Funds</u>					<u>Internal Service Funds</u>
	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Marina Fund</u>	<u>Nonmajor Cartier Park Campground Fund</u>	<u>Total</u>	
Cash flows from operating activities:						
Cash received from customers	\$ 1,403,852	\$ 1,243,358	\$ 862,700	\$ 197,418	\$ 3,707,328	\$ 199,206
Cash received from interfund services	-	-	-	-	-	967,943
Cash payments to employees and on behalf of employees	(505,687)	(859,540)	(157,688)	(99,914)	(1,622,829)	(321,706)
Cash payments to suppliers for goods and services	(650,198)	(617,149)	(627,549)	(95,809)	(1,990,705)	(768,220)
Net cash provided (used) by operating activities	<u>247,967</u>	<u>(233,331)</u>	<u>77,463</u>	<u>1,695</u>	<u>93,794</u>	<u>77,223</u>
Cash flows from non-capital financing activities:						
Other income - scrap sales	41	5,426	-	-	5,467	-
Transfers from (to) other funds	-	-	(559)	-	(559)	-
Net cash provided (used) by non-capital financing activities	<u>41</u>	<u>5,426</u>	<u>(559)</u>	<u>-</u>	<u>4,908</u>	<u>-</u>
Cash flows from capital and related financing activities:						
Sale of capital assets	-	-	-	-	-	7,931
Acquisition and construction of capital assets	(57,645)	(337,759)	-	(13,083)	(408,487)	(152,141)
Principal payments	(70,000)	-	-	-	(70,000)	-
Interest paid	(17,875)	-	-	-	(17,875)	-
Net cash used by capital and related financing activities	<u>(145,520)</u>	<u>(337,759)</u>	<u>-</u>	<u>(13,083)</u>	<u>(496,362)</u>	<u>(144,210)</u>
Cash flows from investing activities:						
Interest received	2,899	3,756	1,751	897	9,303	571
Rent received	-	103,888	-	-	103,888	-
Net cash provided by investing activities	<u>2,899</u>	<u>107,644</u>	<u>1,751</u>	<u>897</u>	<u>113,191</u>	<u>571</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, 2014

	<i>Enterprise Funds</i>					
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Marina Fund</i>	<i>Nonmajor Cartier Park Campground Fund</i>	<i>Total</i>	<i>Internal Service Funds</i>
Net increase (decrease) in cash and investments	105,387	(458,020)	78,655	(10,491)	(284,469)	(66,416)
Cash and investments, beginning of year	<u>918,149</u>	<u>1,137,862</u>	<u>389,745</u>	<u>200,476</u>	<u>2,646,232</u>	<u>147,399</u>
Cash and investments, end of year	<u>\$ 1,023,536</u>	<u>\$ 679,842</u>	<u>\$ 468,400</u>	<u>\$ 189,985</u>	<u>\$ 2,361,763</u>	<u>\$ 80,983</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:						
Operating income (loss)	\$ (8,168)	\$ (398,682)	\$ (87,791)	\$ (877)	\$ (495,518)	\$ (91,716)
Adjustments:						
Depreciation	244,229	230,551	105,234	4,120	584,134	213,974
Change in assets and liabilities:						
Accounts receivable	39,644	16,353	90	-	56,087	(624)
Due from other governments	-	-	40,608	-	40,608	549
Inventory	(439)	(800)	5,963	-	4,724	6,242
Prepaid expenses	(13,735)	(33,497)	(2,204)	(1,150)	(50,586)	(21,427)
Accounts payable	(11,798)	(34,468)	1,632	(103)	(44,737)	(16,160)
Accrued expenses	(6,418)	(13,593)	(1,033)	(353)	(21,397)	(3,387)
Due to other funds	-	-	-	-	-	(11,345)
Unearned revenue	-	-	14,279	(60)	14,219	-
Compensated absences payable	5,112	1,625	760	118	7,615	1,117
Net OPEB obligation	<u>(460)</u>	<u>(820)</u>	<u>(75)</u>	<u>-</u>	<u>(1,355)</u>	<u>-</u>
Net cash provided (used) by operating activities	<u>\$ 247,967</u>	<u>\$ (233,331)</u>	<u>\$ 77,463</u>	<u>\$ 1,695</u>	<u>\$ 93,794</u>	<u>\$ 77,223</u>

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

CITY OF LUDINGTON

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

December 31, 2014

	<i>Police Pension Trust Fund</i>	<i>Agency Funds</i>
	<u> </u>	<u> </u>
Assets:		
Cash and investments	\$ 4,977,982	\$ 4,459,201
Taxes receivable	307,244	-
Accrued interest receivable	33	-
	<u>5,285,259</u>	<u>\$ 4,459,201</u>
Total assets		
Liabilities:		
Accounts payable	3,374	\$ 195,191
Undistributed tax collections	<u>-</u>	<u>4,264,010</u>
	<u>3,374</u>	<u>\$ 4,459,201</u>
Total liabilities		
Deferred inflows of resources:		
Property taxes levied in advance	<u>307,244</u>	
Net position:		
Held in trust for pension benefits	<u>4,974,641</u>	
	<u>\$ 4,974,641</u>	
Total net position		

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

CITY OF LUDINGTON

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

Year Ended December 31, 2014

	<i>Police Pension Trust Fund</i>
Additions:	
Property taxes	\$ 297,187
Employee contributions	55,438
Investment income (loss)	<u>354,142</u>
Total additions	<u>706,767</u>
Deductions:	
Benefit payments	340,646
Fees and other	<u>60,213</u>
Total deductions	<u>400,859</u>
Net increase	305,908
Net position, beginning of year	<u>4,668,733</u>
Net position, end of year	<u><u>\$ 4,974,641</u></u>

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

NOTES TO FINANCIAL STATEMENTS

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies used by the City of Ludington, (the "City").

Reporting Entity:

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 accompanying financial statements present the City and its component unit, an entity for which the City is considered financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description). Although blended component units are legal separate entities, in substance, they are part of the City's operations.

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.

Related Organization:

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.

Accounting and Reporting Principles:

The City follows accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Government Accounting Standards Board.

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Report Presentation:

Governmental accounting principles require that financial reports include two different perspectives - the government-wide perspective and the fund-based perspective. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. The government-wide financial statements are presented on the economic resources measurement focus and the full accrual basis of accounting. 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 statements also present a schedule reconciling these amounts to the modified accrual-based presentation found in the fund-based statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Taxes and other items not properly included among program revenues are reported instead as general revenue.

For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges between the City's enterprise functions and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are not included in the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Fund Accounting:

The City accounts for its various activities in several different funds in order to demonstrate accountability for how it has spent certain resources - separate funds allow the City to show the particular expenditures that specific revenues were used for. The various funds are aggregated into three broad fund types:

Governmental funds include all activities that provide general governmental services that are not business-type activities. This includes the General Fund, special revenue funds, debt service funds, and capital project funds.

Proprietary funds provide goods or services to users in exchange for charges or fees.

Fiduciary funds account for the resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of the funds are not available to support the City's own programs.

The City reports the following major governmental funds:

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

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

The City reports the following major proprietary funds:

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

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

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

Additionally, the City reports the following fund types:

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

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

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

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

Basis of Accounting:

The governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting is intended to better demonstrate accountability for how the government has spent its resources. Expenditures are reported when the goods are received or the services are rendered. Capital outlays are reported as expenditures (rather than as capital assets) because they reduce the ability to spend resources in the future; conversely, employee benefit costs that will be funded in the future (such as pension and retiree health care related costs, or sick and vacation pay) are not counted until they come due for payment. In addition, debt service expenditures, claims, and judgments are recorded only when payment is due.

Revenues are not recognized until they are collected, or collected soon enough after the end of the year that they are available to pay for obligations outstanding at the end of the year. For this purpose, the City considers amounts collected within 60 days of year end to be available for recognition. The following major revenue sources meet the availability criterion: most state-shared revenue, state gas and weight tax revenue, and interest associated with the current fiscal period. Proprietary funds use the economic resources measurement focus and the full accrual basis of accounting.

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Specific Balances and Transactions:

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.

Inventories – 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.

Prepaid Items – 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.

Restricted Assets – Certain resources set aside for repayment of bonds and to meet bond covenants, are classified as restricted assets on the statement of net position because their use is limited by applicable bond covenants.

Capital Assets – Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are defined by the City as assets with an individual cost in excess of \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. 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.

Long-term Obligations – In the government-wide financial statements and the proprietary fund type financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net position. The General Fund and debt service funds are generally used to liquidate governmental long-term debt.

Unearned Revenue – Governmental and proprietary funds report unearned revenue in connection with resources that have been received but not yet earned.

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. Unavailable revenue qualifies for reporting in this category and arises only under a modified accrual basis of accounting.

Net Position Flow Assumption – Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Fund Balance Flow Assumption – Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

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

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

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

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

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

Unassigned – Amounts that do not fall into any category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund.

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

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

Revenues for 2014 include property taxes levied in 2013 but appropriated by a City ordinance to finance 2014 operations. Property taxes levied in 2014 for the operations of 2015 are a lien against properties and are an asset of the City. They are recorded as taxes receivable and a deferred inflow of resources at December 31, 2014. In 2013, the City levied property taxes on an assessed property tax value of \$266,866,061 (exclusive of any Michigan Tax Tribunal or Board of Review adjustments). Taxes levied consisted of 11.5675 mills for the City's operating purposes, 2.7762 mills for refuse services, and 1.1501 mills for police pension. The DDA levied property taxes on an assessed property tax value of \$27,166,513 (exclusive of any Michigan Tax Tribunal or Board of Review adjustments). Taxes levied consisted of 1.6080 mills.

Pension Costs – The City offers pension benefits to retirees. The City receives an actuarial valuation to compute the annual required contribution (ARC) necessary to fund the obligation over the remaining amortization period. In the governmental funds, pension costs are recognized as contributions are made. For the government-wide statements and proprietary funds, the City reports the full accrual cost equal to the current year required contribution, adjusted for interest and "adjustment to the ARC" on the beginning of year underpaid amount, if any.

Other Postemployment Benefit Costs (OPEB) – The City offers qualified retirees a monthly stipend to be used for postemployment healthcare benefits. The City used the alternative measurement method 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 annual required contribution (ARC) less any current year paid benefits, adjusted for interest and "adjustment to the ARC" on the beginning of the year underpaid amount, if any.

Compensated Absences (Vacation and Sick Leave) – 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.

Proprietary Funds Operating Classification – 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.

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

The proprietary funds recognize as capital contributions the tap fees intended to recover the cost of connecting new customers to the system and as nonoperating revenues rental income and investment income. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All expenses not included in these classifications are reported as nonoperating expenses.

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.

Interfund Activity:

During the course of operations, the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

Adoption of New Accounting Standard:

The Government Accounting Standards Board has issued Statement No. 67, *Financial Reporting for Pension Plans*. Statement 67 contains guidance for pension plans that prepare and issue their own financial reports, as well as for plans that are reported as a fiduciary fund by a government. Statement 67 is effective for the year ending December 31, 2014 and has been implemented by the City.

Upcoming Adoption of New Accounting Standard:

The Government Accounting Standards Board has issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement 68 requires governments participating in public employee pension plans to recognize their portion of the long-term obligation for the pension benefits as a liability and to measure the annual costs of the pension benefits. The effect of these changes has not been determined. Statement 68 is effective for the year ending December 31, 2015.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information:

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all special revenue funds. Prior to November 1 of each year, the City Manager submits to the City Council a proposed operating budget for the year commencing the following January 1.

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY, CONTINUED

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

Excess of Expenditures over Appropriations in Budgeted Funds:

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

State Construction Code Act:

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

Cumulative surplus at January 1, 2014		\$	-
Current year building permit revenue			24,833
Related expenses:			
Direct costs	14,655		
Indirect costs	25,902		40,557
			<u> </u>
Cumulative surplus at December 31, 2014		\$	<u> </u>

NOTE 3: DEPOSITS AND INVESTMENTS

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

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 3: DEPOSITS AND INVESTMENTS, CONTINUED

The City has designated **ten** banks for the deposit of its funds. The investment policy adopted by the City Council is in accordance with Public Act 196 of 1997. The City's deposits and investments have been made in accordance with statutory authority.

The City's deposits and investments are subject to several types of risk, which are presented in more detail as follows:

Custodial Credit Risk of Bank Deposits:

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a written deposit policy for custodial credit risk. At year end, the City had \$8,864,116 of bank deposits (certificates of deposit, checking, and savings accounts), of which \$1,026,152 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 notes	\$ 550,400	1.41 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 notes	\$ 550,400	Aaa	Moody's
Bond mutual funds	55,613	Not Rated	N/A

<u>Fiduciary Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Money market	\$ 84,394	Not Rated	N/A
Mutual fund - equity	3,184,514	Not Rated	N/A
Mutual fund - fixed	1,498,480	Not Rated	N/A

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 4: RESTRICTED ASSETS AND BOND RESERVES

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

At December 31, 2014 the City had these accounts established and had restricted cash as follows:

	<i>Restricted Cash and Investments</i>
Sewer Fund:	
Bond reserve	\$ <u>220,000</u>

NOTE 5: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2014 was as follows:

	<i>January 1, 2014</i>	<i>Additions</i>	<i>Retirements</i>	<i>December 31, 2014</i>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 262,280	\$ -	\$ -	\$ 262,280
Capital assets being depreciated:				
Buildings and improvements	5,734,306	-	(28,425)	5,705,881
Furniture and equipment	312,402	-	(167,785)	144,617
Infrastructure	5,926,613	753,333	-	6,679,946
Land and site improvements	840,887	-	-	840,887
Machinery and equipment	5,239,544	169,389	(2,834,713)	2,574,220
Total capital assets being depreciated	<u>18,053,752</u>	<u>922,722</u>	<u>(3,030,923)</u>	<u>15,945,551</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,227,335)	(113,339)	28,425	(1,312,249)
Furniture and equipment	(222,090)	(24,149)	167,786	(78,453)
Infrastructure	(560,290)	(239,153)	-	(799,443)
Land and site improvements	(304,323)	(31,330)	-	(335,653)
Machinery and equipment	(4,145,608)	(217,677)	2,834,712	(1,528,573)
Total accumulated depreciation	<u>(6,459,646)</u>	<u>(625,648)</u>	<u>3,030,923</u>	<u>(4,054,371)</u>
Capital assets being depreciated, net	<u>11,594,106</u>	<u>297,074</u>	<u>-</u>	<u>11,891,180</u>
Governmental activities, capital assets, net	<u>\$ 11,856,386</u>	<u>\$ 297,074</u>	<u>\$ -</u>	<u>\$ 12,153,460</u>

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 5: CAPITAL ASSETS, CONTINUED

	<i>January 1, 2014</i>	<i>Additions</i>	<i>Retirements</i>	<i>December 31, 2014</i>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 880,826	\$ -	\$ -	\$ 880,826
Capital assets being depreciated:				
Buildings and improvements	1,529,613	-	(1,530)	1,528,083
Furniture and equipment	112,247		(2,958)	109,289
Infrastructure	74,154		-	74,154
Land improvements	3,224,601	13,083	(1,514,270)	1,723,414
Machinery and equipment	1,053,410	17,572	(416,232)	654,750
Sewer systems and plants	12,841,399	57,645	(221,888)	12,677,156
Water systems and plants	9,502,456	320,187	(361,682)	9,460,961
Total capital assets being depreciated	<u>28,337,880</u>	<u>408,487</u>	<u>(2,518,560)</u>	<u>26,227,807</u>
Less accumulated depreciation for:				
Buildings and improvements	(845,685)	(35,120)	1,530	(879,275)
Furniture and equipment	(62,785)	(18,987)	2,958	(78,814)
Infrastructure	(9,778)	(2,942)	-	(12,720)
Land improvements	(2,104,361)	(64,695)	1,514,270	(654,786)
Machinery and equipment	(901,684)	(35,684)	416,232	(521,136)
Sewer systems and plants	(4,551,101)	(225,577)	221,888	(4,554,790)
Water systems and plants	(3,782,189)	(201,129)	361,682	(3,621,636)
Total accumulated depreciation	<u>(12,257,583)</u>	<u>(584,134)</u>	<u>2,518,560</u>	<u>(10,323,157)</u>
Capital assets being depreciated, net	<u>16,080,297</u>	<u>(175,647)</u>	<u>-</u>	<u>15,904,650</u>
Business-type activities, capital assets, net	<u>\$ 16,961,123</u>	<u>\$ (175,647)</u>	<u>\$ -</u>	<u>\$ 16,785,476</u>
Component unit:				
Capital assets being depreciated:				
Land improvements	\$ 10,672	\$ -	\$ -	\$ 10,672
Machinery and equipment	28,815	-	-	28,815
Total capital assets being depreciated	<u>39,487</u>	<u>-</u>	<u>-</u>	<u>39,487</u>
Less accumulated depreciation for:				
Land improvements	(338)	(213)	-	(551)
Machinery and equipment	(22,157)	(4,543)	-	(26,700)
Total accumulated depreciation	<u>(22,495)</u>	<u>(4,756)</u>	<u>-</u>	<u>(27,251)</u>
Component unit, capital assets, net	<u>\$ 16,992</u>	<u>\$ (4,756)</u>	<u>\$ -</u>	<u>\$ 12,236</u>

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 5: CAPITAL ASSETS, CONTINUED

Depreciation expense was charged to functions as follows:

	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Component Unit</i>
General government	\$ 90,382	\$ -	\$ -
Public safety	63,645	-	-
Public works	391,006	-	-
Health and welfare	2,938	-	-
Community and economic development	982	-	4,756
Recreation and culture	76,695	-	-
Sewer	-	244,229	-
Water	-	230,551	-
Marina	-	105,234	-
Cartier Park Campground	-	4,120	-
	<u>\$ 625,648</u>	<u>\$ 584,134</u>	<u>\$ 4,756</u>

NOTE 6: LONG-TERM LIABILITIES

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

Long-term obligation activity for the year ended December 31, 2014 is summarized as follows:

	<i>January 1, 2014</i>	<i>Additions</i>	<i>Reductions</i>	<i>December 31, 2014</i>	<i>Due Within One Year</i>
Governmental Activities:					
<i>Bonds and notes payable:</i>					
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	\$1,475,000	\$ -	\$ (210,000)	\$ 1,265,000	\$ 225,000
2013 Copier/Printer Contract Payable for \$89,160, with monthly payments of \$1,486 at 0.00% interest; Maturing June 2018	80,405	-	(17,790)	62,615	17,832
<i>Other liabilities:</i>					
Compensated absences	94,286	2,837	-	97,123	-
Net OPEB obligation	<u>131,804</u>	<u>60,057</u>	<u>(38,449)</u>	<u>153,412</u>	<u>-</u>
Total Governmental Activities	<u>\$1,781,495</u>	<u>\$ 62,894</u>	<u>\$ (266,239)</u>	<u>\$ 1,578,150</u>	<u>\$ 242,832</u>

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 6: LONG-TERM LIABILITIES, CONTINUED

	<u>January 1, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31, 2014</u>	<u>Due Within One Year</u>
Business-type Activities:					
<i>Bonds payable:</i>					
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					
	\$1,100,000	\$ -	\$ (70,000)	\$ 1,030,000	\$ 70,000
<i>Other liabilities:</i>					
Compensated absences	40,853	7,615	-	48,468	-
Net OPEB obligation	<u>19,702</u>	<u>5,845</u>	<u>(7,200)</u>	<u>18,347</u>	<u>-</u>
Total Business-type Activities	<u>\$1,160,555</u>	<u>\$ 13,460</u>	<u>\$ (77,200)</u>	<u>\$ 1,096,815</u>	<u>\$ 70,000</u>

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

<i>Year Ended</i>	<i>Governmental Activities</i>			<i>Business-type Activities</i>		
	<i>Principal</i>	<i>Interest</i>	<i>Total</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
<i>December 31,</i>						
2015	\$ 242,832	\$ 49,115	\$ 291,947	\$ 70,000	\$ 16,738	\$ 86,738
2016	257,832	40,115	297,947	75,000	15,600	90,600
2017	267,832	31,235	299,067	75,000	14,382	89,382
2018	274,119	21,735	295,854	75,000	13,162	88,162
2019	285,000	11,400	296,400	75,000	11,944	86,944
2020-2024	-	-	-	405,000	40,626	445,626
2025-2027	<u>-</u>	<u>-</u>	<u>-</u>	<u>255,000</u>	<u>8,288</u>	<u>263,288</u>
	<u>\$ 1,327,615</u>	<u>\$ 153,600</u>	<u>\$ 1,481,215</u>	<u>\$ 1,030,000</u>	<u>\$ 120,740</u>	<u>\$ 1,150,740</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, 2014 is \$504,882. 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

December 31, 2014

NOTE 7: DISAGGREGATED RECEIVABLE AND PAYABLE BALANCES

Receivable and payable balances for the year ended December 31, 2014 were as follows:

	<i>Primary Government</i>			<i>Component Unit</i>
	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Total</i>	
Receivables:				
Property taxes	\$ 3,854,880	\$ -	\$ 3,854,880	\$ 112,136
Accounts	84,375	600,295	684,670	6,085
Special assessments	3,220	-	3,220	-
Notes	5,207	-	5,207	-
Accrued interest	2,294	1,921	4,215	143
Intergovernmental	284,986	-	284,986	-
Total receivables	<u>\$ 4,234,962</u>	<u>\$ 602,216</u>	<u>\$ 4,837,178</u>	<u>\$ 118,364</u>
Accounts payable and accrued expenses:				
Accounts	\$ 193,521	\$ 83,689	\$ 277,210	\$ 9,820
Payroll liabilities	46,125	17,729	63,854	-
Deposits payable	9,985	4,900	14,885	-
Accrued interest	20,465	-	20,465	-
Intergovernmental	3,986	-	3,986	200
Total accounts payable and accrued expenses	<u>\$ 274,082</u>	<u>\$ 106,318</u>	<u>\$ 380,400</u>	<u>\$ 10,020</u>

NOTE 8: INTERFUND TRANSFERS

The composition of interfund transfers at December 31, 2014 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	\$ 435,247
Marina Fund	General Fund	559

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

NOTE 9: RISK MANAGEMENT

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation) and certain medical benefits provided to employees. The City manages its liability, property, and worker's compensation risk by participating in Michigan Municipal Risk Management Authority, a public entity risk pool providing property, liability, and worker compensation coverage to its participating members. The City pays an annual premium to Michigan Municipal Risk Management Authority for its insurance coverage.

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 9: RISK MANAGEMENT, CONTINUED

The Michigan Municipal Risk Management Authority is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence-based property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years.

NOTE 10: EMPLOYEE RETIREMENT PLANS

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

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

Plan Description – The City contributes to the Michigan Municipal Employees' Retirement System, an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for governmental units in the State of Michigan. The system provides the following: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and postretirement adjustments to plan members and their beneficiaries. All full-time employees, except policemen, are eligible to participate in the plan. Benefits vest after 10 years of service. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.5 percent of 5-year final average compensation (FAC) (if hired before June 1, 2011) or 1.5 percent of 3-year FAC (if hired after June 1, 2011) with a maximum benefit of 80 percent of FAC. The most recent period of which actuarial data was available was for the year ended December 31, 2013.

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 amended, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy – The obligation to contribute to and maintain the system for these employees was established by negotiations with the City Council and personnel policy. Employees hired before June 1, 2011 (division 01) are not required to contribute to the plan and the City is required to contribute at an actuarially determined rate. Employees hired after June 1, 2011 (division 02) are required to contribute 5 percent to the plan and the City was required to contribute 5.81 percent. Employees' required contributions were \$14,858. The City's actuarially determined rate for division 01 was a fixed monthly rate of \$42,050 based on the December 31, 2012 valuation.

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 10: EMPLOYEE RETIREMENT PLANS, CONTINUED

Annual Pension Costs – For year ended December 31, 2014, the City’s annual pension cost of \$521,831 for the plan was equal to the required and actual contribution. The City made additional voluntary payments that totaled \$36,000 during 2014. The annual required contribution was determined as part of an actuarial valuation at December 31, 2012, 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 25 years.

Three year trend information as of December 31, follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Annual pension cost	\$ 521,831	\$ 489,247	\$ 452,171
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

Funded Status – As of December 31, 2013, the most recent actuarial valuation date, the plan was 72 percent funded. The actuarial accrued liability for benefits was \$18,150,182, and the actuarial value of assets was \$13,128,433, resulting in an unfunded actuarial accrued liability (UAAL) of \$5,021,749. The covered payroll (annual payroll of active employees covered by the plan) was \$1,920,675, and the ratio of the UAAL to the covered payroll was 261 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 Retirement System:

Summary of Significant Accounting Policies:

Method used to value instruments – Investments are reported at fair value.

Plan Description:

Plan administration – The City operates the City of Ludington Police Retirement System; a single-employer defined benefit pension plan that provides pensions for all full-time police employees of the City. The plan was established under Act 345, PA of 1937 of the State of Michigan. Management of the retirement system is vested in the Police Retirement Board, which consists of five members—the treasurer of the City, two members elected by plan members and two members appointed by the City Council.

Plan membership – At December 31, 2014, pension plan membership consisted of the following:

Retirees and beneficiaries	13
Active plan members	14
	<u>27</u>

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS December 31, 2014

NOTE 10: EMPLOYEE RETIREMENT PLANS, CONTINUED

Benefits provided – The City of Ludington Police Retirement System provides retirement, disability, and death benefits. All benefits vest after 10 years of credited service. Retirement benefits for members who retire after 25 years or more of service are calculated as 2.7 percent of the member’s 3-year final average compensation (AFC) times the first 25 years of service plus 1% of AFC times years of service in excess of 25 years. Members of any age with 25 or more years of service are eligible to retire. All plan members are eligible for non-duty disability benefits after 5 or more years of service and for duty-related disability benefits upon hire. Duty disability benefits to age 55 are 50% of FAC and non-duty disability retirement benefits to age 55 are 1.5% of FAC. For both, at age 55 they are determined the same as retirement benefits. Duty death benefits are the same amount that was paid by workers’ compensation and non-duty death benefits are accrued straight life pension actuarially reduced

Contributions – The obligation to contribute to the system for the police employees was established by negotiations between the City Council and the police bargaining unit (union contract). The contract requires the employees to contribute to the plan at a rate of 6% of eligible payroll. The City is required to contribute based on a property tax levy of 1.1501 mills. For the year ended December 31, 2014, the City made contributions of \$297,187 and the police employees contributed \$55,438.

Investments:

Investment policy – The pension plan’s policy in regard to allocation of invested assets is established and may be amended by the Ludington Police Pension Fund Board. It is the policy of the Police Retirement System Board to pursue an investment strategy that reduces the risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plan’s overall long-term investment objective is to earn an average, annual return of 7%. Asset classes are selected based on their expected long-term returns, individual reward/risk characteristics, correlation with other asset classes and fulfillment of the pension’s long-term financial needs. The Board establishes general allocation ranges for each asset class in recognition of the need to vary exposure within and among different asset classes, based on investment opportunities and changing capital market conditions. The manager selects the specific allocation for each asset class based on market valuation opportunities and the risk/reward of each class. The following was the Board’s adopted asset allocation policy as of December 31, 2014:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Range Allocation</u>
Common stock	50%	40-60%
Fixed income	47%	37-57%
Short term (money market)	3%	0-13%

Rate of Return – For the year ended December 31, 2014, the nominal rate of return on funding value was 8.85%.

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 10: EMPLOYEE RETIREMENT PLANS, CONTINUED

Net Pension Liability:

The components of the net pension liability at December 31, 2014, were as follows:

Total pension liability	\$ 6,680,544
Plan fiduciary net position	<u>(4,974,641)</u>
Net pension liability	<u>\$ 1,705,903</u>
Plan fiduciary net position as a percentage percentage of the total pension liability	74.46%
Covered payroll	\$ 888,155
Net pension liability as a percentage of of covered payroll	192.1%

Actuarial assumptions – The total pension liability was determined based on the annual actuarial valuation as of December 31, 2014. The following actuarial assumptions were applied to compute the total pension liability:

Actuarial cost method	Entry age
Inflation	4%
Salary increases	7%-4% (includes inflation)
Cost of living adjustments	None
Investment rate of return	7.0%, net of pension plan investment expense, including inflation

Mortality rates were based on the 1971 Group Annuity Projected to 2000, Set back 6 years for females.

Discount rate – The discount rate used to measure the total pension liability was 6.71%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made at the current contribution rate and that City Contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the 6.71% discount rate is the single rate of return that, when applied to all projected benefit payments, results in an actuarial present value of projected benefit payments equal to the total of the actuarial present values determined in conformity with GASB 67, paragraph 44.

Sensitivity of the net pension liability to changes in the discount rate – The following presents the City's net pension liability, calculated using the discount rate of 6.71%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1% lower (5.71%) or 1% higher (7.71%) than the current rate:

	<u>1% Decrease</u>	<u>Computed</u>	<u>1% Increase</u>
	<u>Rate 5.71%</u>	<u>GASB 67</u>	<u>Rate 7.71%</u>
		<u>Rate 6.71%</u>	
Net pension liability	\$ 2,508,026	\$ 1,705,903	\$ 1,028,983

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 11: OTHER POSTEMPLOYMENT BENEFITS

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

Funding Policy – The City has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a “pay-as-you-go” basis). The City has made no contributions in advance. At the fund level, the expense is recognized by the City as the payments to the employees are made. During the year, this amounted to \$45,649.

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

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

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

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

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 11: OTHER POSTEMPLOYMENT BENEFITS, CONTINUED

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

For the year ended December 31, 2014:

Annual required contribution (recommended)	\$ 68,743
Interest on the prior year's net OPEB obligation	6,060
Less adjustment to the annual required contribution	<u>(8,901)</u>
Annual OPEB cost	65,902
Amounts contributed:	
Payments of current premiums	(45,649)
Advance funding	<u>-</u>
Increase in net OPEB obligation	20,253
OPEB obligation, beginning of year	<u>151,506</u>
OPEB obligation, end of year	<u><u>\$ 171,759</u></u>

The OPEB obligation is recorded as follows:

Governmental activities	\$ 153,412
Business-type activities	<u>18,347</u>
Total	<u><u>\$ 171,759</u></u>

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

<u>Year</u> <u>Ending</u>	<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Annual</u> <u>OPEB</u> <u>Cost</u>	<u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>	<u>Net</u> <u>OPEB</u> <u>Obligation</u>
12/31/14	1/1/13	\$ 65,902	\$ 45,649	69%	\$ 171,759
12/31/13	1/1/13	66,331	41,612	63%	151,506
12/31/12	1/1/10	79,816	39,250	49%	126,787

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

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE 12: FUND BALANCES

Fund balances are classified as Nonspendable, Restricted, Committed, Assigned or Unassigned. The classifications are described in Note 1. The following illustrates the segregation of fund balances of the governmental funds shown on page 14.

	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Fund balances:				
Nonspendable:				
Inventory	\$ 27,617	\$ 45,065	\$ -	\$ 72,682
Prepaid expenditures	232,638	1,463	8,255	242,356
Long-term receivables	-	-	5,207	5,207
Restricted for:				
Streets	-	110,541	258,470	369,011
Senior center activities	-	-	41,751	41,751
Debt service	-	-	2	2
Committed to:				
Recreation activities	-	-	54,078	54,078
Downtown building rehab	-	-	88,154	88,154
Cemetery capital improvements	-	-	205,616	205,616
Assigned to:				
Waterfront playground equipment	3,544	-	-	3,544
Unassigned	<u>1,227,340</u>	<u>-</u>	<u>-</u>	<u>1,227,340</u>
Total fund balances	<u>\$ 1,491,139</u>	<u>\$ 157,069</u>	<u>\$ 661,533</u>	<u>\$ 2,309,741</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LUDINGTON

SCHEDULE OF PENSION PLAN FUNDING PROGRESS

Year Ended December 31, 2014

Schedule of Pension Plan Funding Progress - General:

<u>Actuarial Valuation Date</u>	<u>12/31/13</u>	<u>12/31/12</u>	<u>12/31/11</u>
Actuarial Value of Assets	\$ 13,128,433	\$ 12,961,775	\$ 12,956,687
Actuarial Accrued Liability (AAL)	18,150,182	17,194,965	16,858,140
Unfunded AAL (UAAL)	5,021,749	4,233,190	3,901,453
Funded Ratio	72%	75%	77%
Covered Payroll	1,920,675	2,008,700	1,982,367
UAAL as a percentage of covered payroll	261%	211%	197%

Schedule of Pension Plan Funding Progress - Police:

<u>Actuarial Valuation Date</u>	<u>12/31/14</u>	<u>12/31/13</u>	<u>12/31/12</u>
Actuarial Value of Assets	\$ 4,744,156	\$ 4,357,319	\$ 4,014,756
Actuarial Accrued Liability (AAL)	6,472,506	5,907,110	6,027,237
Unfunded AAL (UAAL)	1,728,350	1,549,791	2,012,481
Funded Ratio	73%	74%	67%
Covered Payroll	888,155	809,192	832,173
UAAL as a percentage of covered payroll	195%	192%	242%

SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS FUNDING PROGRESS

Schedule of Other Postemployment Benefits Funding Progress:

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

CITY OF LUDINGTON

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

Year Ended December 31, 2014

	<u>2014</u>
Total pension liability	
Service cost	\$ 176,256
Interest	403,626
Changes in benefit terms	-
Differences between expected and actual experience	343,823
Changes of assumptions	-
Benefit payments, including refunds of member contributions	<u>(340,646)</u>
Net change in total pension liability	583,059
Total pension liability - beginning	<u>6,097,485</u>
Total pension liability - ending	<u>\$ 6,680,544</u>
Plan fiduciary net position	
Contributions - employer	\$ 297,187
Contributions - member	55,438
Net investment income	354,142
Benefit payments, including refunds of member contributions	(340,646)
Administrative expense	(60,213)
Other	<u>-</u>
Net change in plan fiduciary net position	305,908
Plan fiduciary net position - beginning	<u>4,668,733</u>
Plan fiduciary net position - ending	<u>\$ 4,974,641</u>
City's police net pension liability	<u>\$ 1,705,903</u>
Plan fiduciary net position as a percentage of total pension liability	74.46%
Covered-employee payroll	\$ 888,155
City's police net pension liability as a percentage of covered-employee payroll	192.1%

CITY OF LUDINGTON

SCHEDULE OF CITY POLICE CONTRIBUTIONS

Year Ended December 31, 2014

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Actuarially determined contribution	\$ 297,188	\$ 289,156	\$ 284,836	\$ 270,508	\$ 259,778
Contributions in relation to the actuarially determined contribution	<u>297,188</u>	<u>289,156</u>	<u>284,836</u>	<u>270,508</u>	<u>259,778</u>
Contribution excess (deficiency)	<u>\$ -</u>				
Covered-employee payroll	\$ 888,155	\$ 809,192	\$ 832,173	\$ 745,397	\$ 854,278
Actuarially determined contributions as a percentage of covered-employee payroll	33.46%	35.73%	34.23%	36.29%	30.41%
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Actuarially determined contribution	\$ 253,829	\$ 247,904	\$ 234,733	\$ 221,142	\$ 213,021
Contributions in relation to the actuarially determined contribution	<u>253,829</u>	<u>247,904</u>	<u>234,733</u>	<u>221,142</u>	<u>213,021</u>
Contribution excess (deficiency)	<u>\$ -</u>				
Covered-employee payroll	\$ 896,135	\$ 902,623	\$ 806,609	\$ 777,390	\$ 777,526
Actuarially determined contributions as a percentage of covered-employee payroll	28.32%	27.46%	29.10%	28.45%	27.40%

Notes to Schedule

Valuation date:

Covered employee payroll is as of December 31 of the current fiscal year.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, open
Remaining amortization period	15 years
Asset valuation method	5 years smoothed market
Inflation	4.00%
Salary increases	7.0%-4.0%, including inflation
Investment rate of return	7.0%, net of pension plan investment expense, including inflation

CITY OF LUDINGTON

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2014

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Actual</i>
	<i>Original</i>	<i>Final</i>		<i>Over (Under)</i>
				<i>Final Budget</i>
Revenues:				
Property taxes	\$ 3,756,800	\$ 3,761,200	\$ 3,747,599	\$ (13,601)
Licenses and permits	95,500	109,500	109,607	107
Federal grants	2,000	2,000	16,977	14,977
State grants	729,300	791,400	766,264	(25,136)
Contributions from other units	46,100	49,600	65,635	16,035
Charges for services	535,400	546,900	531,283	(15,617)
Fines and forfeits	34,000	34,000	33,348	(652)
Interest and rents	19,600	19,600	18,132	(1,468)
Other revenue	99,500	131,000	130,841	(159)
Total revenues	5,318,200	5,445,200	5,419,686	(25,514)
Expenditures:				
Current				
General government				
Council and Mayor	40,700	38,700	38,340	(360)
Manager	239,300	249,300	248,953	(347)
Clerk	246,200	270,200	269,755	(445)
Board of review	3,300	3,300	3,187	(113)
Treasurer	120,900	120,900	120,284	(616)
Assessor and Building inspector	169,900	187,900	187,358	(542)
Elections	28,600	25,000	24,399	(601)
Hall and grounds, downtown and other	273,500	290,000	289,174	(826)
Attorney	77,500	79,500	79,440	(60)
Cemetery	194,700	192,900	192,742	(158)
Board of ethics	200	200	-	(200)
Total general government	1,394,800	1,457,900	1,453,632	(4,268)
Public safety				
Police	1,398,600	1,502,300	1,502,150	(150)
Fire	201,600	205,100	204,396	(704)
Total public safety	1,600,200	1,707,400	1,706,546	(854)
Public works				
Department of public works	370,600	366,100	365,910	(190)
Sidewalk construction	113,100	122,600	122,366	(234)
Street lighting	120,000	107,000	106,011	(989)
Garbage and rubbish	696,500	682,500	681,401	(1,099)
Total public works	1,300,200	1,278,200	1,275,688	(2,512)

continued

CITY OF LUDINGTON

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE, CONTINUED

Year Ended December 31, 2014

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Actual Over (Under) Final Budget</i>
	<i>Original</i>	<i>Final</i>		
Community and economic development				
Planning	11,700	10,700	10,380	(320)
Economic development	94,400	88,900	88,626	(274)
Total community and economic development	<u>106,100</u>	<u>99,600</u>	<u>99,006</u>	<u>(594)</u>
Recreation and culture				
Parks	384,300	364,800	363,884	(916)
Beach safety	29,700	31,600	31,419	(181)
Launching ramps	163,900	86,900	86,015	(885)
Waterfront playground	100	5,700	5,670	(30)
Total recreation and culture	<u>578,000</u>	<u>489,000</u>	<u>486,988</u>	<u>(2,012)</u>
Other				
Insurance and bonds	39,000	38,000	37,769	(231)
Debt service	17,900	17,900	17,790	(110)
Total expenditures	<u>5,036,200</u>	<u>5,088,000</u>	<u>5,077,419</u>	<u>(10,581)</u>
Excess (deficiency) of revenues over expenditures	<u>282,000</u>	<u>357,200</u>	<u>342,267</u>	<u>(14,933)</u>
Other financing sources (uses):				
Transfers from (to) other funds	<u>(436,200)</u>	<u>(436,200)</u>	<u>(434,688)</u>	<u>1,512</u>
Change in fund balance	(154,200)	(79,000)	(92,421)	(13,421)
Fund balance, beginning of year	<u>1,583,560</u>	<u>1,583,560</u>	<u>1,583,560</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,429,360</u>	<u>\$ 1,504,560</u>	<u>\$ 1,491,139</u>	<u>\$ (13,421)</u>

CITY OF LUDINGTON

MAJOR STREET FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2014

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Actual</i>
	<i>Original</i>	<i>Final</i>		<i>Over (Under)</i>
				<i>Final Budget</i>
Revenues:				
Federal grants	\$ -	\$ 100	\$ 236	\$ 136
Federal grants - MDOT pass through	375,000	375,000	375,000	-
State grants	458,300	464,000	464,059	59
Interest and rents	1,200	1,200	967	(233)
Total revenues	<u>834,500</u>	<u>840,300</u>	<u>840,262</u>	<u>(38)</u>
Expenditures:				
Current				
Public works	342,900	310,600	310,511	(89)
Capital outlay	160,300	379,100	379,018	(82)
Capital outlay - MDOT pass through	<u>375,000</u>	<u>375,000</u>	<u>375,000</u>	<u>-</u>
Total expenditures	<u>878,200</u>	<u>1,064,700</u>	<u>1,064,529</u>	<u>(171)</u>
Change in fund balance	(43,700)	(224,400)	(224,267)	133
Fund balance, beginning of year	<u>381,336</u>	<u>381,336</u>	<u>381,336</u>	<u>-</u>
Fund balance, end of year	<u>\$ 337,636</u>	<u>\$ 156,936</u>	<u>\$ 157,069</u>	<u>\$ 133</u>

OTHER SUPPLEMENTARY INFORMATION

CITY OF LUDINGTON

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET

December 31, 2014

	<i>Special Revenue Funds</i>			
	<i>Local Street Fund</i>	<i>Recreation Fund</i>	<i>Senior Center Fund</i>	<i>Building Rehab Fund</i>
Assets:				
Cash and investments	\$ 221,927	\$ 53,854	\$ 44,289	\$ 114,105
Notes receivable	-	-	-	5,207
Accrued interest receivable	181	44	36	-
Due from other governments	63,472	2,500	-	-
Prepaid expenditures	2,241	1,921	4,093	-
Total assets	<u>\$ 287,821</u>	<u>\$ 58,319</u>	<u>\$ 48,418</u>	<u>\$ 119,312</u>
Liabilities:				
Accounts payable	\$ 450	\$ 1,324	\$ 949	\$ 22,465
Accrued expenses	1,275	996	1,625	-
Due to other governments	-	-	-	3,486
Unearned revenue	-	-	-	-
Total liabilities	<u>1,725</u>	<u>2,320</u>	<u>2,574</u>	<u>25,951</u>
Deferred inflows of resources:				
Other state grants applicable to next year	<u>25,385</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:				
Nonspendable:				
Prepaid expenditures	2,241	1,921	4,093	-
Long-term receivables	-	-	-	5,207
Restricted for:				
Streets	258,470	-	-	-
Senior center activities	-	-	41,751	-
Debt service	-	-	-	-
Committed for:				
Recreation activities	-	54,078	-	-
Downtown building rehab	-	-	-	88,154
Cemetery capital improvements	-	-	-	-
Total fund balances	<u>260,711</u>	<u>55,999</u>	<u>45,844</u>	<u>93,361</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 287,821</u>	<u>\$ 58,319</u>	<u>\$ 48,418</u>	<u>\$ 119,312</u>

continued

CITY OF LUDINGTON

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET, CONTINUED

December 31, 2014

	<i>Special Revenue Fund</i>	<i>Debt Service Fund</i>	<i>Capital Projects Fund</i>	
	<i>Cemetery Capital Improvement Fund</i>	<i>Building Authority Bond Fund</i>	<i>W. Ludington Avenue Project Fund</i>	<i>Total</i>
Assets:				
Cash and investments	\$ 205,449	\$ 2	\$ 51,020	\$ 690,646
Notes receivable	-	-	-	5,207
Accrued interest receivable	167	-	-	428
Due from other governments	-	-	-	65,972
Prepaid expenditures	-	-	-	8,255
Total assets	<u>\$ 205,616</u>	<u>\$ 2</u>	<u>\$ 51,020</u>	<u>\$ 770,508</u>
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ 25,188
Accrued expenses	-	-	-	3,896
Due to other governments	-	-	-	3,486
Unearned revenue	-	-	51,020	51,020
Total liabilities	<u>-</u>	<u>-</u>	<u>51,020</u>	<u>83,590</u>
Deferred inflows of resources:				
Other state grants applicable to next year	-	-	-	25,385
Fund balances:				
Nonspendable:				
Prepaid expenditures	-	-	-	8,255
Long-term receivables	-	-	-	5,207
Restricted for:				
Streets	-	-	-	258,470
Senior center activities	-	-	-	41,751
Debt service	-	2	-	2
Committed for:				
Recreation activities	-	-	-	54,078
Downtown building rehab	-	-	-	88,154
Cemetery capital improvements	205,616	-	-	205,616
Total fund balances	<u>205,616</u>	<u>2</u>	<u>-</u>	<u>661,533</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 205,616</u>	<u>\$ 2</u>	<u>\$ 51,020</u>	<u>\$ 770,508</u>

CITY OF LUDINGTON

NONMAJOR GOVERNMENTAL FUNDS

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

Year Ended December 31, 2014

	<i>Special Revenue Funds</i>			
	<i>Local Street Fund</i>	<i>Recreation Fund</i>	<i>Senior Center Fund</i>	<i>Building Rehab Fund</i>
Revenues:				
Federal grants	\$ -	\$ -	\$ 10,959	\$ 9,377
State grants	253,544	-	900	-
Contributions from other units	-	46,673	144,850	-
Charges for services	-	42,036	6,400	-
Interest and rents	988	226	1,647	-
Other revenue	-	18,118	12,778	-
Total revenues	<u>254,532</u>	<u>107,053</u>	<u>177,534</u>	<u>9,377</u>
Expenditures:				
Current				
Public works	354,965	-	-	-
Health and welfare	-	-	185,036	-
Community and economic development	-	-	-	10,412
Recreation and culture	-	153,619	-	-
Debt service				
Principal	-	-	-	-
Interest and fees	-	-	-	-
Total expenditures	<u>354,965</u>	<u>153,619</u>	<u>185,036</u>	<u>10,412</u>
Excess (deficiency) of revenues over expenditures	<u>(100,433)</u>	<u>(46,566)</u>	<u>(7,502)</u>	<u>(1,035)</u>
Other financing sources (uses):				
Transfers from (to) other funds	126,600	42,000	-	-
Changes in fund balances	26,167	(4,566)	(7,502)	(1,035)
Fund balances, beginning of year	<u>234,544</u>	<u>60,565</u>	<u>53,346</u>	<u>94,396</u>
Fund balances, end of year	<u>\$ 260,711</u>	<u>\$ 55,999</u>	<u>\$ 45,844</u>	<u>\$ 93,361</u>

continued

CITY OF LUDINGTON

NONMAJOR GOVERNMENTAL FUNDS

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

Year Ended December 31, 2014

	<i>Special Revenue Fund</i>	<i>Debt Service Fund</i>	<i>Capital Projects Fund</i>	
	<i>Cemetery Capital Improvement Fund</i>	<i>Building Authority Bond Fund</i>	<i>W. Ludington Avenue Project Fund</i>	<i>Total</i>
Revenues:				
Federal grants	\$ -	\$ -	\$ -	\$ 20,336
State grants	-	-	-	254,444
Contributions from other units	-	-	-	191,523
Charges for services	-	-	-	48,436
Interest and rents	868	-	-	3,729
Other revenue	8,400	-	-	39,296
Total revenues	<u>9,268</u>	<u>-</u>	<u>-</u>	<u>557,764</u>
Expenditures:				
Current				
Public works	-	-	-	354,965
Health and welfare	-	-	-	185,036
Community and economic development	-	-	-	10,412
Recreation and culture	-	-	-	153,619
Debt service				
Principal	-	210,000	-	210,000
Interest and fees	-	57,515	-	57,515
Total expenditures	<u>-</u>	<u>267,515</u>	<u>-</u>	<u>971,547</u>
Excess (deficiency) of revenues over expenditures	<u>9,268</u>	<u>(267,515)</u>	<u>-</u>	<u>(413,783)</u>
Other financing sources (uses):				
Transfers from (to) other funds	(868)	267,515	-	435,247
Changes in fund balances	8,400	-	-	21,464
Fund balances, beginning of year	<u>197,216</u>	<u>2</u>	<u>-</u>	<u>640,069</u>
Fund balances, end of year	<u>\$ 205,616</u>	<u>\$ 2</u>	<u>\$ -</u>	<u>\$ 661,533</u>

CITY OF LUDINGTON

INTERNAL SERVICE FUNDS

COMBINING STATEMENT OF NET POSITION

December 31, 2014

	<u>Motor Pool</u> <u>Fund</u>	<u>Technology</u> <u>Fund</u>	<u>Total</u>
Assets:			
Current assets:			
Cash and investments	\$ 80,983	\$ -	\$ 80,983
Accounts receivable	15,023	-	15,023
Accrued interest receivable	66	-	66
Due from other governmental units	843	-	843
Inventory	72,732	-	72,732
Prepaid expenses	49,910	7,866	57,776
Total current assets	<u>219,557</u>	<u>7,866</u>	<u>227,423</u>
Noncurrent assets:			
Capital assets:			
Capital assets not being depreciated	4,250	-	4,250
Capital assets being depreciated, net	<u>2,688,781</u>	<u>48,385</u>	<u>2,737,166</u>
Total noncurrent assets	<u>2,693,031</u>	<u>48,385</u>	<u>2,741,416</u>
Total assets	<u>2,912,588</u>	<u>56,251</u>	<u>2,968,839</u>
Liabilities:			
Current liabilities:			
Accounts payable	30,305	157	30,462
Accrued expenses	3,220	-	3,220
Due to other funds	<u>-</u>	<u>11,365</u>	<u>11,365</u>
Total current liabilities	<u>33,525</u>	<u>11,522</u>	<u>45,047</u>
Noncurrent liabilities:			
Compensated absences payable	<u>7,468</u>	<u>-</u>	<u>7,468</u>
Total liabilities	<u>40,993</u>	<u>11,522</u>	<u>52,515</u>
Net position:			
Investment in capital assets	2,693,031	48,385	2,741,416
Unrestricted (deficit)	<u>178,564</u>	<u>(3,656)</u>	<u>174,908</u>
Total net position	<u>\$ 2,871,595</u>	<u>\$ 44,729</u>	<u>\$ 2,916,324</u>

CITY OF LUDINGTON

INTERNAL SERVICE FUNDS

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION Year Ended December 31, 2014

	<i>Motor Pool</i>	<i>Technology</i>	
	<u>Fund</u>	<u>Fund</u>	<u>Total</u>
Operating revenues:			
Equipment rental - interfund charges	\$ 888,459	\$ 90,829	\$ 979,288
Other	199,281	-	199,281
Total operating revenues	<u>1,087,740</u>	<u>90,829</u>	<u>1,178,569</u>
Operating expenses:			
Personal services	319,436	-	319,436
Contracted services	22,194	52,276	74,470
Administrative expense	57,900	-	57,900
Insurance	55,080	-	55,080
Utilities	43,042	-	43,042
Repairs and maintenance	110,371	-	110,371
Other services and expenses	376,784	19,228	396,012
Depreciation	194,649	19,325	213,974
Total operating expenses	<u>1,179,456</u>	<u>90,829</u>	<u>1,270,285</u>
Operating income (loss)	<u>(91,716)</u>	<u>-</u>	<u>(91,716)</u>
Non-operating revenues (expenses):			
Interest income	580	-	580
Net gain on sale/disposal of capital assets	7,931	-	7,931
Net non-operating revenues	<u>8,511</u>	<u>-</u>	<u>8,511</u>
Changes in net position	(83,205)	-	(83,205)
Net position, beginning of year	<u>2,954,800</u>	<u>44,729</u>	<u>2,999,529</u>
Net position, end of year	<u>\$ 2,871,595</u>	<u>\$ 44,729</u>	<u>\$ 2,916,324</u>

CITY OF LUDINGTON

INTERNAL SERVICE FUNDS

COMBINING STATEMENT OF CASH FLOWS

Year Ended December 31, 2014

	<i>Motor Pool Fund</i>	<i>Technology Fund</i>	<i>Total</i>
Cash flows from operating activities:			
Cash received from customers	\$ 199,206	\$ -	\$ 199,206
Cash received from interfund services	888,459	79,484	967,943
Cash payments to employees and on behalf of employees	(321,706)	-	(321,706)
Cash payments to suppliers for goods and services	(688,736)	(79,484)	(768,220)
Net cash provided (used) by operating activities	<u>77,223</u>	<u>-</u>	<u>77,223</u>
Cash flows from capital and related financing activities:			
Proceeds from sale/disposal of capital assets	7,931	-	7,931
Acquisition of capital assets	(152,141)	-	(152,141)
Net cash provided by capital and related financing activities	<u>(144,210)</u>	<u>-</u>	<u>(144,210)</u>
Cash flows from investing activities:			
Interest received	571	-	571
Net increase (decrease) in cash and investments	(66,416)	-	(66,416)
Cash and investments, beginning of year	147,399	-	147,399
Cash and investments, end of year	<u>\$ 80,983</u>	<u>\$ -</u>	<u>\$ 80,983</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (91,716)	\$ -	\$ (91,716)
Adjustments:			
Depreciation	194,649	19,325	213,974
Change in assets and liabilities:			
Accounts receivable	(624)	-	(624)
Due from other governments	549	-	549
Inventory	6,242	-	6,242
Prepaid expenses	(13,801)	(7,626)	(21,427)
Accounts payable	(15,806)	(354)	(16,160)
Accrued expenses	(3,387)	-	(3,387)
Due to other funds	-	(11,345)	(11,345)
Compensated absences payable	1,117	-	1,117
Net cash provided (used) by operating activities	<u>\$ 77,223</u>	<u>\$ -</u>	<u>\$ 77,223</u>

CITY OF LUDINGTON

GOVERNMENTAL ACTIVITIES

SCHEDULE OF INDEBTEDNESS

December 31, 2014

2005 BUILDING AUTHORITY REFUNDING BONDS

Issue in the amount of	\$ 2,135,000
Less: Principal paid in prior years	(660,000)
Principal paid in current year	<u>(210,000)</u>
Balance payable at December 31, 2014	<u>\$ 1,265,000</u>

Balance payable as follows:

<u>Year Ended</u>	<u>Interest Rate</u>	<u>Interest due February 1</u>	<u>Interest due August 1</u>	<u>Principal due August 1</u>	<u>Total Annual Requirement</u>
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>\$ 76,800</u>	<u>\$ 76,800</u>	<u>\$ 1,265,000</u>	<u>\$ 1,418,600</u>

CITY OF LUDINGTON

GOVERNMENTAL ACTIVITIES

SCHEDULE OF INDEBTEDNESS

December 31, 2014

2013 COPIER/PRINTER CONTRACT PAYABLE

Issue in the amount of	\$	89,160
Less:		
Principal paid in prior years		(8,755)
Principal paid in current year		<u>(17,790)</u>
Balance payable at December 31, 2014	\$	<u>62,615</u>

Balance payable as follows:

<u>Year Ended</u>	<u>Interest Rate</u>	<u>Principal due</u>
2015	0.00%	\$ 17,832
2016	0.00%	17,832
2017	0.00%	17,832
2018	0.00%	<u>9,119</u>
		<u>\$ 62,615</u>

CITY OF LUDINGTON

BUSINESS-TYPE ACTIVITIES

SCHEDULE OF INDEBTEDNESS

December 31, 2014

2007 SEWAGE DISPOSAL SYSTEM JUNIOR LIEN REVENUE BONDS

Issue in the amount of	\$ 1,500,000
Less: Principal paid in prior years	(400,000)
Principal paid in current year	<u>(70,000)</u>
Balance payable at December 31, 2014	<u>\$ 1,030,000</u>

Balance payable as follows:

<u>Year Ended</u>	<u>Interest Rate</u>	<u>Interest due April 1</u>	<u>Interest due October 1</u>	<u>Principal due October 1</u>	<u>Total Annual Requirement</u>
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>\$ 60,370</u>	<u>\$ 60,370</u>	<u>\$ 1,030,000</u>	<u>\$ 1,150,740</u>



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Ludington, as of and for the year ended December 31, 2014, 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 9, 2015.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

Purpose of this Report

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

Berthiaume & Co.

Saginaw, Michigan
March 9, 2015