

# **CITY OF LUDINGTON**

Mason County, Michigan

## **FINANCIAL STATEMENTS**

December 31, 2011

# CITY OF LUDINGTON

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## INDEPENDENT AUDITORS' REPORT

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

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, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Ludington's management. 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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financing reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the 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, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 11, 2012 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 4 through 11), schedules of pension plans funding progress (page 48), and budgetary comparison information (pages 49 through 50) 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

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

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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ludington's financial statements as a whole. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

During the year ended December 31, 2011, the City of Ludington implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. As discussed in Note 1, as a result of implementing this new statement, fund balance may now be classified into five new categories – Nonspendable, Restricted, Committed, Assigned and Unassigned.

*Berthiaume & Co.*

Saginaw, Michigan  
April 11, 2012

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

# CITY OF LUDINGTON

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Ludington (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the year ended December 31, 2011. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the financial statements and the notes to the financial statements.

### Financial Highlights

The assets of the City exceeded its liabilities at the close of the most recent year by \$29,892,041 (net assets). Of this amount, \$5,070,470 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and others.

During the year, the City's total net assets increased by \$195,388. Governmental activities increased \$529,155, while business-type activities decreased \$333,767.

At the end of the current year, the City's governmental funds reported combined ending fund balances of \$2,787,984, an increase of \$91,561 in comparison with prior year. Approximately 55 percent of this total or \$1,544,915 is nonspendable, restricted, committed or assigned. This leaves an unassigned fund balance \$1,243,069.

At the end of the current year, unassigned fund balance for the General Fund was \$1,243,069, or 23.36% of the General Fund's annual expenditures (including transfers). Total fund balance of the General Fund was \$1,396,931, or 26.24% of the General Fund's annual expenditures (including transfers).

### Overview of the Financial Statements

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

### Government-wide Financial Statements

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

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

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

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

# CITY OF LUDINGTON

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Fund Financial Statements

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

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

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

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

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

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

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

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

# CITY OF LUDINGTON

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

**Other Information** – In addition to the basic financial statements and accompanying notes, this report also presents certain required supplemental information concerning the City.

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

### Government-wide Financial Analysis

#### **Statement of Net Assets**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. For all activities of the City, assets exceeded liabilities by \$29,892,041 at the close of the most recent year. Most of this amount (76 percent) reflects the investment in capital assets (e.g., land, buildings, vehicles, equipment, and infrastructure) less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to its citizens; thus, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (7 percent) represents resources that are subject to external restrictions on how they are to be used. The remaining balance of unrestricted net assets (17 percent) may be used to meet the government's ongoing obligations to citizens and others.

# CITY OF LUDINGTON

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### City of Ludington's Net Assets

	<i>Governmental</i>		<i>Business-type</i>		<i>Total</i>	
	<i>Activities</i>		<i>Activities</i>			
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
<b>Assets:</b>						
Current assets	\$ 7,021,008	\$ 7,089,748	\$ 3,210,735	\$ 3,409,944	\$ 10,231,743	\$ 10,499,692
Noncurrent assets:						
Restricted assets	-	-	1,056,017	1,016,017	1,056,017	1,016,017
Other assets	80,389	98,482	-	-	80,389	98,482
Capital assets	9,151,209	8,675,285	16,780,789	16,993,876	25,931,998	25,669,161
Total assets	<u>16,252,606</u>	<u>15,863,515</u>	<u>21,047,541</u>	<u>21,419,837</u>	<u>37,300,147</u>	<u>37,283,352</u>
<b>Liabilities:</b>						
Other liabilities	3,871,292	3,867,720	212,509	195,167	4,083,801	4,062,887
Long-term liabilities	2,028,215	2,171,851	1,296,090	1,351,961	3,324,305	3,523,812
Total liabilities	<u>5,899,507</u>	<u>6,039,571</u>	<u>1,508,599</u>	<u>1,547,128</u>	<u>7,408,106</u>	<u>7,586,699</u>
<b>Net assets:</b>						
Invested in capital assets, net of related debt	7,291,209	6,640,285	15,540,789	15,688,876	22,831,998	22,329,161
Restricted	933,556	927,260	1,056,017	1,016,017	1,989,573	1,943,277
Unrestricted	2,128,334	2,256,399	2,942,136	3,167,816	5,070,470	5,424,215
Total net assets	<u>\$10,353,099</u>	<u>\$ 9,823,944</u>	<u>\$19,538,942</u>	<u>\$19,872,709</u>	<u>\$29,892,041</u>	<u>\$29,696,653</u>

# CITY OF LUDINGTON

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>	<i>2011</i>	<i>2010</i>
<b>Revenues:</b>						
Program revenues						
Charges for services	\$ 1,024,206	\$ 917,981	\$ 3,480,908	\$ 3,484,954	\$ 4,505,114	\$ 4,402,935
Operating grants	1,175,032	1,127,635	-	-	1,175,032	1,127,635
Capital grants	412,925	1,019,961	-	156,798	412,925	1,176,759
General revenues						
Property taxes	3,717,651	3,699,088	-	-	3,717,651	3,699,088
Franchise fees	72,941	70,664	-	-	72,941	70,664
State revenue sharing	679,853	702,420	-	-	679,853	702,420
Investment earnings	45,237	42,826	30,931	73,571	76,168	116,397
Other	-	-	11,974	-	11,974	-
Total revenues	<u>7,127,845</u>	<u>7,580,575</u>	<u>3,523,813</u>	<u>3,715,323</u>	<u>10,651,658</u>	<u>11,295,898</u>
<b>Expenses:</b>						
General government	1,324,571	1,264,615	-	-	1,324,571	1,264,615
Public safety	1,565,834	1,768,732	-	-	1,565,834	1,768,732
Public works	2,302,584	2,540,181	-	-	2,302,584	2,540,181
Health and welfare	168,027	152,414	-	-	168,027	152,414
Community and economic development	502,347	472,081	-	-	502,347	472,081
Recreation and culture	643,696	434,020	-	-	643,696	434,020
Interest on long-term debt	94,106	101,720	-	-	94,106	101,720
Sewer	-	-	1,331,859	1,299,118	1,331,859	1,299,118
Water	-	-	1,575,699	1,443,726	1,575,699	1,443,726
Marina	-	-	802,978	720,976	802,978	720,976
Cartier Park Campground	-	-	146,369	150,061	146,369	150,061
Total expenses	<u>6,601,165</u>	<u>6,733,763</u>	<u>3,856,905</u>	<u>3,613,881</u>	<u>10,458,070</u>	<u>10,347,644</u>
Excess of revenues over expenses before other	<u>526,680</u>	<u>846,812</u>	<u>(333,092)</u>	<u>101,442</u>	<u>193,588</u>	<u>948,254</u>
<b>Other items:</b>						
Contributions to principal	-	2,480	-	-	-	2,480
Sale of capital assets	1,800	775	-	-	1,800	775
Transfers	<u>675</u>	<u>671</u>	<u>(675)</u>	<u>(671)</u>	<u>-</u>	<u>-</u>
Total other items	<u>2,475</u>	<u>3,926</u>	<u>(675)</u>	<u>(671)</u>	<u>1,800</u>	<u>3,255</u>
<b>Changes in net assets</b>	<u>529,155</u>	<u>850,738</u>	<u>(333,767)</u>	<u>100,771</u>	<u>195,388</u>	<u>951,509</u>
Net assets, beginning of year	<u>9,823,944</u>	<u>8,973,206</u>	<u>19,872,709</u>	<u>19,771,938</u>	<u>29,696,653</u>	<u>28,745,144</u>
Net assets, end of year	<u>\$10,353,099</u>	<u>\$ 9,823,944</u>	<u>\$19,538,942</u>	<u>\$19,872,709</u>	<u>\$29,892,041</u>	<u>\$29,696,653</u>

# CITY OF LUDINGTON

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

### City Funds Financial Analysis

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

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

The General Fund accounts for functions relating to the general government activities of the City, which are financed by property tax levies, distribution of State revenues, and fees charged for various municipal activities and services. Fund balance of the General Fund increased \$114,750 in 2011. The City Council adopted a policy to retain an unassigned fund balance in the General Fund equal to 20% of its annual expenditures budget and to annually commit any excess fund balance to capital improvements, which will be used on improvements to the City's infrastructure. The unassigned fund balance is 23% of the General Fund's annual expenditures for 2011. However, the City Council has elected to not commit these funds to capital improvements in anticipation of a decline in fund balance in upcoming years.

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

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

The Marina Fund finances the operations of the marina.

### **General Fund Budgetary Highlights**

Over the course of the year, the City Council and City management monitor and amend the budget to account for unanticipated events during the year.

The City originally budgeted that General Fund revenues would equal General Fund expenditures. The actual results were such that General Fund revenues exceeded expenditures by approximately \$115,000.

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

- Sale of refuse stickers increased \$14,400 over the budgeted amount.
- City received a \$57,500 grant from MSHDA to complete the Cultural Economic Development Plan.
- City received dividend checks from its workers compensation insurer in the amount of \$13,280 and from its property and liability insurer in the amount of \$74,917.

# CITY OF LUDINGTON

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

- Spent \$10,794 on replacement equipment for the City's Public, Educational and Governmental (PEG) channel (channel 98).
- Spent \$57,500 more in the Community Development budget due to the preparation of the Cultural Economic Development Plan. This cost was offset in full by a grant.
- Spent \$17,500 for final work on new breakwater at Loomis Street Boat Ramp.
- Spent \$41,400 more in the Police Department's contribution to the Technology Fund for the new side scan sonar for the boat. This amount was offset in full by a grant.
- Spent \$3,100 less than budgeted for Professional Services in the City Manager's budget.
- Spent \$4,100 less than budgeted for the Treasurer's Office wages and benefits due to the transfer of an employee to the Senior Center.
- Spent \$5,000 less in street lighting costs (electricity).
- Spent \$9,000 more on wages and benefits in the City Property-Downtown budget.

### Capital Assets and Debt Administration

**Capital Assets** – The City's investment in capital assets for governmental and business-type activities as of December 31, 2011 amounts to \$25,931,998 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings and improvements, vehicles, furniture and equipment, infrastructure, systems, and sidewalks. Governmental activities included additions of approximately \$963,000 in buildings/improvements, infrastructure and machinery and equipment. Business-type activities included additions of approximately \$343,000 in various equipment and system improvements.

**Debt** – At the end of the current year, the City had total long-term debt outstanding, excluding compensated absences and net OPEB obligations, of \$3,100,000. Of this amount, \$1,860,000 comprises debt backed by the full faith and credit of the government. The remaining of the City's debt \$1,240,000 is backed solely by specified revenue sources.

### Economic Factors

The City continues to maintain positive fund balances in each of its funds. However, concerns arise when considering the revenues and expenses that the City is facing in the upcoming years. The major sources of revenue for the City are property taxes, State-shared revenue, and charges for services. These sources have certain limitations outside the City's control – property tax revenue in the City is projected to decrease by 1% or \$40,000 in 2012, which is the result of the decrease in the City's SEV and taxable values due to the poor condition of the real estate market. The State Legislature is also considering eliminating the personal property tax. The City's revenue from personal property tax is about \$552,000, which represents 11% of the General Fund's revenues. It is uncertain at this date whether the State will provide replacement revenue. The State of Michigan has reduced revenue-sharing payments to local governments and has replaced the loss of statutory revenue sharing with an incentive program proposed by the Governor. This has resulted in employees currently paying up to 20% of the health care costs and a local retirement system that now requires new employees to contribute to the pension plan. In comparison, certain expenses continue to rise at a rate higher than inflation, such as health insurance, retirement costs, utility costs and fuel expenses.

The City has approved a budget for 2012 using \$33,300 of the Fund Balance. Because of the uncertainty given the current economic environment, the City completed a three-year financial projection through the year 2014 to monitor the effects of the economy on the revenues and expenditures of our major funds as well as to identify trends that could impact the City's operations. Projections for 2013 and 2014 reflect expenditures in excess of revenues, and the City is evaluating options for which the City will need to address prior to the approval of the 2013 budget.

# **CITY OF LUDINGTON**

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

### **GASB Pronouncements**

In March 2009, the GASB issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. This statement was effective for this current fiscal year. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated and unreserved were replaced with five new classifications: Nonspendable, Restricted, Committed, Assigned and Unassigned.

### **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 ASSETS

December 31, 2011

	<i>Primary Government</i>			<i>Component Unit</i>
	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Total</i>	
<b>Assets:</b>				
Cash and investments	\$ 2,704,782	\$ 2,303,519	\$ 5,008,301	\$ 100,174
Receivables	4,000,113	597,527	4,597,640	111,108
Inventory	132,456	212,505	344,961	-
Prepaid expenses	183,657	97,184	280,841	6,021
Restricted cash and investments	-	1,056,017	1,056,017	-
Capital assets:				
Nondepreciable capital assets	262,280	867,055	1,129,335	-
Depreciable capital assets, net	8,888,929	15,913,734	24,802,663	17,244
Deferred charges	80,389	-	80,389	-
<b>Total assets</b>	<b>16,252,606</b>	<b>21,047,541</b>	<b>37,300,147</b>	<b>234,547</b>
<b>Liabilities:</b>				
Accounts payable and accrued expenses	312,748	106,129	418,877	6,522
Deferred revenue	3,558,544	106,380	3,664,924	107,227
Long-term liabilities:				
Due within one year	190,000	70,000	260,000	-
Due in more than one year	1,838,215	1,226,090	3,064,305	-
<b>Total liabilities</b>	<b>5,899,507</b>	<b>1,508,599</b>	<b>7,408,106</b>	<b>113,749</b>
<b>Net assets:</b>				
Invested in capital assets, net of related debt	7,291,209	15,540,789	22,831,998	17,244
Restricted for:				
Debt service	2	160,000	160,002	-
Equipment replacement	-	896,017	896,017	-
Contamination cleanup activities	48,413	-	48,413	-
Senior center activities	44,261	-	44,261	-
Streets	840,880	-	840,880	-
Unrestricted	2,128,334	2,942,136	5,070,470	103,554
<b>Total net assets</b>	<b>\$ 10,353,099</b>	<b>\$ 19,538,942</b>	<b>\$ 29,892,041</b>	<b>\$ 120,798</b>

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

# CITY OF LUDINGTON

## STATEMENT OF ACTIVITIES

Year Ended December 31, 2011

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
<b>Functions/Programs</b>					
<b>PRIMARY GOVERNMENT:</b>					
<i>Governmental activities:</i>					
General government	\$ 1,324,571	\$ 458,063	\$ 63,189	\$ -	\$ (803,319)
Public safety	1,565,834	82,062	47,015	62,501	(1,374,256)
Public works	2,302,584	328,036	610,860	350,424	(1,013,264)
Health and welfare	168,027	21,905	102,707	-	(43,415)
Community and economic development	502,347	25,869	294,368	-	(182,110)
Recreation and culture	643,696	108,271	56,893	-	(478,532)
Interest on long-term debt	94,106	-	-	-	(94,106)
Total governmental activities	<u>6,601,165</u>	<u>1,024,206</u>	<u>1,175,032</u>	<u>412,925</u>	<u>(3,989,002)</u>
<i>Business-type activities:</i>					
Sewer	1,331,859	1,209,783	-	-	(122,076)
Water	1,575,699	1,332,756	-	-	(242,943)
Marina	802,978	751,257	-	-	(51,721)
Cartier Park Campground	146,369	187,112	-	-	40,743
Total business-type activities	<u>3,856,905</u>	<u>3,480,908</u>	<u>-</u>	<u>-</u>	<u>(375,997)</u>
Total primary government	<u>\$ 10,458,070</u>	<u>\$ 4,505,114</u>	<u>\$ 1,175,032</u>	<u>\$ 412,925</u>	<u>\$ (4,364,999)</u>
<b>COMPONENT UNIT:</b>					
Downtown development authority	<u>\$ 137,567</u>	<u>\$ -</u>	<u>\$ 42,411</u>	<u>\$ -</u>	<u>\$ (95,156)</u>

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

	<i>Primary Government</i>			<i>Component Unit</i>
	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Total</i>	
<i>Changes in net assets:</i>				
Net (Expense) Revenue	\$ (3,989,002)	\$ (375,997)	\$ (4,364,999)	\$ (95,156)
General revenues:				
Taxes:				
Property taxes, levied for general purpose	3,648,737	-	3,648,737	-
Property taxes, levied and captured by DDA	-	-	-	105,773
Payment in lieu of taxes	68,914	-	68,914	-
Franchise fees	72,941	-	72,941	-
Grants and contributions not restricted to specific programs	679,853	-	679,853	-
Unrestricted investment earnings	45,237	30,931	76,168	1,381
Other	-	11,974	11,974	-
Special item - Gain (loss) on sale of capital asset	1,800	-	1,800	-
Transfers	675	(675)	-	-
Total general revenues and other	4,518,157	42,230	4,560,387	107,154
Changes in net assets	529,155	(333,767)	195,388	11,998
Net assets, beginning of year	9,823,944	19,872,709	29,696,653	108,800
Net assets, end of year	\$ 10,353,099	\$ 19,538,942	\$ 29,892,041	\$ 120,798

# CITY OF LUDINGTON

## GOVERNMENTAL FUNDS

### BALANCE SHEET

December 31, 2011

	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
<b>Assets:</b>				
Cash and investments	\$ 1,173,378	\$ 476,821	\$ 758,584	\$ 2,408,783
Taxes receivable	3,548,985	-	-	3,548,985
Accounts receivable	61,244	63	-	61,307
Special assessments receivable	5,021	-	-	5,021
Notes receivable	-	-	5,207	5,207
Accrued interest receivable	439	163	206	808
Due from other governmental units	194,231	62,603	107,663	364,497
Inventory	10,478	68,155	-	78,633
Prepaid expenditures	133,256	2,508	5,605	141,369
Total assets	<u>\$ 5,155,768</u>	<u>\$ 610,313</u>	<u>\$ 877,265</u>	<u>\$ 6,643,346</u>
<b>Liabilities and Fund Balances:</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 142,785	\$ 30,644	\$ 21,052	\$ 194,481
Accrued expenses	49,424	4,311	8,917	62,652
Deposits payable	10,949	-	-	10,949
Deferred revenue	3,556,279	-	2,265	3,558,544
Total liabilities	<u>3,759,437</u>	<u>34,955</u>	<u>60,970</u>	<u>3,855,362</u>
<b>Fund balances:</b>				
Nonspendable:				
Inventory	10,478	68,155	-	78,633
Prepaid expenditures	133,256	-	5,605	138,861
Long-term receivables	-	-	5,207	5,207
Restricted for:				
Streets	-	507,203	333,677	840,880
Senior center activities	-	-	44,261	44,261
Debt service	-	-	2	2
Contamination cleanup activities	-	-	48,413	48,413
Committed to:				
Recreation activities	-	-	79,405	79,405
Downtown building rehab	-	-	94,913	94,913
Cemetery capital improvements	-	-	204,812	204,812
Assigned to:				
Waterfront playground equipment	9,528	-	-	9,528
Unassigned	1,243,069	-	-	1,243,069
Total fund balances	<u>1,396,331</u>	<u>575,358</u>	<u>816,295</u>	<u>2,787,984</u>
Total liabilities and fund balances	<u>\$ 5,155,768</u>	<u>\$ 610,313</u>	<u>\$ 877,265</u>	<u>\$ 6,643,346</u>

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

# CITY OF LUDINGTON

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

December 31, 2011

<b>Total fund balances for governmental funds</b>		\$ 2,787,984
Total net assets reported for governmental activities in the statement of net assets 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	8,315,758	
Less accumulated depreciation	<u>(2,210,934)</u>	6,104,824
Bond issuance costs are recorded as expenditures in the governmental funds but are deferred in the statement of net assets and amortized over the life of the bond.		80,389
Interest payable in the governmental activities are not payable from current resources and therefore are not reported in the governmental funds.		(30,183)
Net other postemployment benefit obligation (OPEB) are not reported in the governmental funds.		(72,977)
Long-term liabilities are not due and payable in the current year and therefore are not reported in the governmental funds:		
Bonds payable	(1,860,000)	
Compensated absences payable	<u>(87,250)</u>	(1,947,250)
The assets and liabilities of internal service funds are included in governmental activities in the statement of net assets.		<u>3,430,312</u>
<b>Net assets of governmental activities</b>		<u><u>\$10,353,099</u></u>

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

# CITY OF LUDINGTON

## GOVERNMENTAL FUNDS

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

Year Ended December 31, 2011

	<i>General Fund</i>	<i>Major Street Fund</i>	<i>Nonmajor Governmental Funds</i>	<i>Total</i>
<b>Revenues:</b>				
Property taxes	\$ 3,717,651	\$ -	\$ -	\$ 3,717,651
Licenses and permits	92,020	-	-	92,020
Federal grants	87,729	350,424	299,695	737,848
State grants	750,547	419,977	190,883	1,361,407
Contributions from other units	53,680	-	135,428	189,108
Charges for services	518,690	-	68,743	587,433
Fines and forfeits	36,654	-	-	36,654
Interest and rents	33,834	4,811	7,210	45,855
Other revenue	145,814	664	55,254	201,732
<b>Total revenues</b>	<b>5,436,619</b>	<b>775,876</b>	<b>757,213</b>	<b>6,969,708</b>
<b>Expenditures:</b>				
Current				
General government	1,287,519	-	18,803	1,306,322
Public safety	1,510,893	-	-	1,510,893
Public works	1,138,846	240,596	280,286	1,659,728
Health and welfare	-	-	163,723	163,723
Community and economic development	146,028	-	354,352	500,380
Recreation and culture	411,730	-	160,906	572,636
Other	44,373	-	-	44,373
Capital outlay	66,509	639,872	160,821	867,202
Debt service				
Principal	-	-	175,000	175,000
Interest and fees	-	-	78,565	78,565
<b>Total expenditures</b>	<b>4,605,898</b>	<b>880,468</b>	<b>1,392,456</b>	<b>6,878,822</b>
Excess (deficiency) of revenues over expenditures	830,721	(104,592)	(635,243)	90,886
<b>Other financing sources (uses):</b>				
Transfers from (to) other funds	(715,971)	178,500	538,146	675
Changes in fund balances	114,750	73,908	(97,097)	91,561
Fund balances, beginning of year, restated	1,281,581	501,450	913,392	2,696,423
Fund balances, end of year	<u>\$ 1,396,331</u>	<u>\$ 575,358</u>	<u>\$ 816,295</u>	<u>\$ 2,787,984</u>

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

# CITY OF LUDINGTON

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

Year Ended December 31, 2011

<b>Net change in fund balances - total governmental funds</b>		\$ 91,561
Total change in net assets 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	855,659	
Less depreciation expense	<u>(271,405)</u>	584,254
Bond issuance costs are recorded as expenditures in the governmental funds but are deferred in the statement of net assets and amortized over the life of the bond.		(18,093)
Repayments of principal on long-term obligations are expenditures in governmental funds but the payments reduce long-term liabilities in the statement of net assets.		175,000
The increase in net other postemployment benefit obligation (OPEB) does not require the use of current resources and is not reported in the governmental funds.		(30,852)
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	398	
Change in accrued interest on bonds	<u>2,552</u>	2,950
The net revenue (expense) of the internal service fund is reported with governmental activities.		<u>(275,665)</u>
<b>Change in net assets of governmental activities</b>		<u>\$ 529,155</u>

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

# CITY OF LUDINGTON

## PROPRIETARY FUNDS

### STATEMENT OF NET ASSETS

December 31, 2011

	<i>Business-type Activities</i>					<i>Governmental</i>
						<i>Activities</i>
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Marina Fund</i>	<i>Nonmajor Cartier Park Campground Fund</i>	<i>Total Enterprise Funds</i>	<i>Internal Service Funds</i>
<b>Assets:</b>						
<b>Current assets:</b>						
Cash and investments	\$ 343,030	\$ 1,282,269	\$ 555,185	\$ 123,035	\$ 2,303,519	\$ 295,999
Accounts receivable	273,871	322,183	-	-	596,054	13,130
Accrued interest receivable	276	625	189	42	1,132	99
Due from other governmental units	-	-	341	-	341	1,059
Inventory	52,789	136,302	23,414	-	212,505	53,823
Prepaid expenses	32,597	48,151	15,170	1,266	97,184	42,288
Total current assets	<u>702,563</u>	<u>1,789,530</u>	<u>594,299</u>	<u>124,343</u>	<u>3,210,735</u>	<u>406,398</u>
<b>Noncurrent assets:</b>						
Restricted cash and investments	467,004	589,013	-	-	1,056,017	-
Capital assets:						
Nondepreciable capital assets	72,415	3,247	791,393	-	867,055	4,250
Depreciable capital assets, net	<u>8,527,591</u>	<u>5,316,206</u>	<u>1,932,259</u>	<u>137,678</u>	<u>15,913,734</u>	<u>3,042,135</u>
Total noncurrent assets	<u>9,067,010</u>	<u>5,908,466</u>	<u>2,723,652</u>	<u>137,678</u>	<u>17,836,806</u>	<u>3,046,385</u>
Total assets	<u>9,769,573</u>	<u>7,697,996</u>	<u>3,317,951</u>	<u>262,021</u>	<u>21,047,541</u>	<u>3,452,783</u>
<b>Liabilities:</b>						
<b>Current liabilities:</b>						
Accounts payable	27,611	32,684	6,421	5,901	72,617	9,690
Accrued expenses	10,969	17,097	1,123	423	29,612	4,793
Deposits payable	-	3,900	-	-	3,900	-
Deferred revenue	-	-	106,380	-	106,380	-
Current long-term debt	<u>70,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>70,000</u>	<u>-</u>
Total current liabilities	<u>108,580</u>	<u>53,681</u>	<u>113,924</u>	<u>6,324</u>	<u>282,509</u>	<u>14,483</u>
<b>Noncurrent liabilities:</b>						
Compensated absences payable	10,545	29,313	2,988	-	42,846	7,988
Long-term debt	1,170,000	-	-	-	1,170,000	-
Net OPEB obligation	<u>4,284</u>	<u>7,910</u>	<u>1,050</u>	<u>-</u>	<u>13,244</u>	<u>-</u>
Total noncurrent liabilities	<u>1,184,829</u>	<u>37,223</u>	<u>4,038</u>	<u>-</u>	<u>1,226,090</u>	<u>7,988</u>
Total liabilities	<u>1,293,409</u>	<u>90,904</u>	<u>117,962</u>	<u>6,324</u>	<u>1,508,599</u>	<u>22,471</u>

continued

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

# CITY OF LUDINGTON

## PROPRIETARY FUNDS

### STATEMENT OF NET ASSETS, CONTINUED

December 31, 2011

	<i>Business-type Activities</i>				<i>Governmental Activities</i>	
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Marina Fund</i>	<i>Nonmajor</i>	<i>Total Enterprise Funds</i>	<i>Internal Service Funds</i>
				<i>Park Campground Fund</i>		
<b>Net assets:</b>						
Invested in capital assets, net of related debt	7,360,006	5,319,453	2,723,652	137,678	15,540,789	3,046,385
Restricted for:						
Debt service	160,000	-	-	-	160,000	-
Equipment replacement	307,004	589,013	-	-	896,017	-
Unrestricted	649,154	1,698,626	476,337	118,019	2,942,136	383,927
Total net assets	<u>\$ 8,476,164</u>	<u>\$ 7,607,092</u>	<u>\$ 3,199,989</u>	<u>\$ 255,697</u>	<u>\$ 19,538,942</u>	<u>\$ 3,430,312</u>

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

# CITY OF LUDINGTON

## PROPRIETARY FUNDS

### STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Year Ended December 31, 2011

	<i>Business-type Activities</i>					<i>Governmental</i>
						<i>Activities</i>
	<i>Nonmajor</i>					<i>Internal Service Funds</i>
	<i>Cartier</i>					
<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Marina Fund</i>	<i>Park Campground Fund</i>	<i>Total Enterprise Funds</i>		
<b>Operating revenues:</b>						
Charges for services	\$ 1,206,905	\$ 1,243,736	\$ 751,257	\$ 171,021	\$ 3,372,919	\$ -
Equipment rental	-	-	-	-	-	684,149
Other	2,878	11,861	-	16,091	30,830	163,724
Total operating revenues	1,209,783	1,255,597	751,257	187,112	3,403,749	847,873
<b>Operating expenses:</b>						
Personnel	287,324	476,485	99,912	61,401	925,122	165,260
Fringe benefits	171,642	286,313	26,432	6,891	491,278	92,462
Supplies	106,441	56,555	361,845	10,597	535,438	330,587
Contracted services	133,605	220,159	27,540	11,665	392,969	59,287
Administrative expense	72,800	72,800	42,400	20,800	208,800	54,600
Telephone	5,122	7,507	2,807	992	16,428	2,929
Mileage	40	250	159	-	449	-
Dues, licenses and permits	558	380	-	-	938	-
Education and training	1,756	2,139	-	-	3,895	33
Printing and publishing	-	-	2,499	858	3,357	-
Insurance	33,280	33,280	9,244	-	75,804	66,455
Utilities	188,657	138,323	25,815	12,995	365,790	34,180
Repairs and maintenance	17,318	39,169	26,124	10,798	93,409	103,476
Equipment rental	47,401	57,241	7,708	5,367	117,717	1,285
Other services and supplies	3,461	6,866	38,595	-	48,922	8,039
Depreciation	241,248	178,232	131,898	4,005	555,383	210,677
Total operating expenses	1,310,653	1,575,699	802,978	146,369	3,835,699	1,129,270
Operating income (loss)	(100,870)	(320,102)	(51,721)	40,743	(431,950)	(281,397)
<b>Non-operating revenues</b>						
<b>(expenses):</b>						
Interest income	5,426	18,751	5,676	1,078	30,931	3,932
Rental income	-	77,159	-	-	77,159	-
Net gain on sale of assets	-	-	-	-	-	1,800
Other income - Scrap sales	579	11,395	-	-	11,974	-
Interest expense	(21,206)	-	-	-	(21,206)	-
Net non-operating	(15,201)	107,305	5,676	1,078	98,858	5,732

continued

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

# CITY OF LUDINGTON

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## PROPRIETARY FUNDS

### STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS, CONTINUED

Year Ended December 31, 2011

	<i>Business-type Activities</i>					<i>Governmental</i>
						<i>Activities</i>
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Marina Fund</i>	<i>Nonmajor Cartier Park Campground Fund</i>	<i>Total Enterprise Funds</i>	<i>Internal Service Funds</i>
Changes in net assets before transfers	(116,071)	(212,797)	(46,045)	41,821	(333,092)	(275,665)
<b>Transfers to other funds</b>	-	-	(675)	-	(675)	-
Changes in net assets	(116,071)	(212,797)	(46,720)	41,821	(333,767)	(275,665)
Net assets, beginning of year	<u>8,592,235</u>	<u>7,819,889</u>	<u>3,246,709</u>	<u>213,876</u>	<u>19,872,709</u>	<u>3,705,977</u>
Net assets, end of year	<u>\$ 8,476,164</u>	<u>\$ 7,607,092</u>	<u>\$ 3,199,989</u>	<u>\$ 255,697</u>	<u>\$ 19,538,942</u>	<u>\$ 3,430,312</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, 2011

	<i>Business-type Activities</i>				<i>Governmental Activities</i>	
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Marina Fund</i>	<i>Nonmajor</i>	<i>Total Enterprise Funds</i>	<i>Internal Service Funds</i>
				<i>Cartier Park Campground Fund</i>		
<b>Cash flows from operating activities:</b>						
Cash received from customers	\$ 1,196,547	\$ 1,256,065	\$ 885,048	\$ 187,112	\$ 3,524,772	\$ 159,421
Cash received from interfund services	-	-	-	-	-	684,149
Cash payments to employees	(285,090)	(471,356)	(98,146)	(61,401)	(915,993)	(164,239)
Cash payments to suppliers for goods and services	<u>(789,666)</u>	<u>(928,700)</u>	<u>(582,893)</u>	<u>(74,976)</u>	<u>(2,376,235)</u>	<u>(737,687)</u>
Net cash provided (used) by operating activities	<u>121,791</u>	<u>(143,991)</u>	<u>204,009</u>	<u>50,735</u>	<u>232,544</u>	<u>(58,356)</u>
<b>Cash flows from non-capital financing activities:</b>						
Transfers from (to) other funds	<u>-</u>	<u>-</u>	<u>(675)</u>	<u>-</u>	<u>(675)</u>	<u>-</u>
<b>Cash flows from capital and related financing activities:</b>						
Other income - scrap sales	579	11,395	-	-	11,974	-
Acquisition and construction of capital assets	(186,454)	(111,363)	(44,479)	-	(342,296)	(107,349)
Principal payments	(65,000)	-	-	-	(65,000)	-
Interest paid	<u>(21,206)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(21,206)</u>	<u>-</u>
Net cash used by capital and related financing activities	<u>(272,081)</u>	<u>(99,968)</u>	<u>(44,479)</u>	<u>-</u>	<u>(416,528)</u>	<u>(100,549)</u>
<b>Cash flows from investing activities:</b>						
Interest received	7,004	21,966	6,326	1,174	36,470	4,709
Rent received	<u>-</u>	<u>77,159</u>	<u>-</u>	<u>-</u>	<u>77,159</u>	<u>-</u>
Net cash provided by investing activities	<u>7,004</u>	<u>99,125</u>	<u>6,326</u>	<u>1,174</u>	<u>113,629</u>	<u>4,709</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, 2011

	<i>Business-type Activities</i>					<i>Governmental</i>
						<i>Activities</i>
	<i>Sewer</i>	<i>Water</i>	<i>Marina</i>	<i>Nonmajor</i>	<i>Total</i>	<i>Internal</i>
<i>Fund</i>	<i>Fund</i>	<i>Fund</i>	<i>Cartier</i>	<i>Enterprise</i>	<i>Service</i>	
	<i>Fund</i>	<i>Fund</i>	<i>Fund</i>	<i>Park</i>	<i>Funds</i>	<i>Funds</i>
	<i>Fund</i>	<i>Fund</i>	<i>Fund</i>	<i>Campground</i>	<i>Funds</i>	<i>Funds</i>
Net increase (decrease) in cash and investments	(143,286)	(144,834)	165,181	51,909	(71,030)	(154,196)
Cash and investments, beginning of year	953,320	2,016,116	390,004	71,126	3,430,566	450,195
Cash and investments, end of year	<u>\$ 810,034</u>	<u>\$ 1,871,282</u>	<u>\$ 555,185</u>	<u>\$ 123,035</u>	<u>\$ 3,359,536</u>	<u>\$ 295,999</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>						
Operating income (loss)	\$ (100,870)	\$ (320,102)	\$ (51,721)	\$ 40,743	\$ (431,950)	\$ (281,397)
Adjustments:						
Depreciation	241,248	178,232	131,898	4,005	555,383	210,677
Change in assets and liabilities:						
Accounts receivable	(13,236)	468	-	-	(12,768)	(4,233)
Due from other governmental units	-	-	116,041	-	116,041	(70)
Inventory	(401)	(11,717)	(1,957)	-	(14,075)	14,286
Prepaid expenses	4,404	(5,253)	(5,479)	(230)	(6,558)	5,633
Accounts payable	(12,939)	7,381	(4,372)	5,794	(4,136)	(4,273)
Accrued expenses	1,851	2,871	83	423	5,228	111
Deposits payable	(500)	(1,000)	-	-	(1,500)	-
Deferred revenue	-	-	17,750	-	17,750	-
Compensated absences payable	319	1,936	1,507	-	3,762	910
Net OPEB obligation	1,915	3,193	259	-	5,367	-
Net cash provided (used) by operating activities	<u>\$ 121,791</u>	<u>\$ (143,991)</u>	<u>\$ 204,009</u>	<u>\$ 50,735</u>	<u>\$ 232,544</u>	<u>\$ (58,356)</u>

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

# CITY OF LUDINGTON

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## FIDUCIARY FUNDS

### STATEMENT OF NET ASSETS

December 31, 2011

	<i>Police Pension Trust Fund</i>	<i>Agency Funds</i>	<i>Total</i>
<b>Assets:</b>			
Cash and investments	\$ 3,685,699	\$ 3,876,962	\$ 7,562,661
Taxes receivable	284,203	-	284,203
Accrued interest receivable	84	-	84
Total assets	<u>3,969,986</u>	<u>3,876,962</u>	<u>7,846,948</u>
<b>Liabilities:</b>			
Accounts payable	-	2,000	2,000
Undistributed tax collections	-	3,874,962	3,874,962
Deferred revenue	<u>284,203</u>	<u>-</u>	<u>284,203</u>
Total liabilities	<u>284,203</u>	<u>3,876,962</u>	<u>4,161,165</u>
<b>Net Assets:</b>			
Held in trust for pension benefits	<u>3,685,783</u>	<u>-</u>	<u>3,685,783</u>
Total net assets	<u>\$ 3,685,783</u>	<u>\$ -</u>	<u>\$ 3,685,783</u>

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

# CITY OF LUDINGTON

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## FIDUCIARY FUNDS

### STATEMENT OF CHANGES IN NET ASSETS

Year Ended December 31, 2011

	<i>Police Pension Trust Fund</i>
<b>Additions:</b>	
Property taxes	\$ 270,508
Employee contributions	42,935
Investment income (loss)	<u>54,515</u>
Total additions	<u>367,958</u>
<b>Deductions:</b>	
Benefit payments	331,269
Fees and other	<u>41,956</u>
Total deductions	<u>373,225</u>
Net decrease	(5,267)
Net assets, beginning of year	<u>3,691,050</u>
Net assets, end of year	<u><u>\$ 3,685,783</u></u>

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

***NOTES TO FINANCIAL STATEMENTS***

# CITY OF LUDINGTON

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## NOTES TO FINANCIAL STATEMENTS

December 31, 2011

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### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

#### **Reporting Entity:**

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

#### **Blended Component Unit**

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

#### **Discretely Presented Component Unit**

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

#### **Joint Ventures**

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

# CITY OF LUDINGTON

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2011

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

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

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

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

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

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

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

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

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

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

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

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

# CITY OF LUDINGTON

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2011

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

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

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

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

The City reports the following major governmental funds:

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

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

The City reports the following major enterprise funds:

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

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

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

Additionally, the City reports the following fiduciary fund types:

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do no conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for

# CITY OF LUDINGTON

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED December 31, 2011

their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

**Assets, Liabilities and Equity:**

**Deposits and Investments** – Cash includes cash on hand, demand deposits, certificates of deposit and short term investments with a maturity of three months or less when acquired. Investments are stated at fair value. For purposes of the statement of cash flows, the City considers all investments (including restricted assets) to be cash equivalents.

**Interfund Receivables and Payables** – Generally, outstanding amounts owed between funds are classified as “due from/to other funds”. These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

**Inventories and Prepaid Items** – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased for the cemetery and public works departments. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

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

Buildings and improvements	20-75 years
Furniture and equipment	5-10 years
Infrastructure	25 years
Land improvements	5-50 years
Machinery and equipment	5-25 years
Utility systems and plants	15-99 years

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

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

# CITY OF LUDINGTON

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2011

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

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

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

*Nonspendable* – amounts which cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact.

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

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

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

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

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

### **Use of Estimates:**

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

### **Eliminations and Reclassifications:**

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

# CITY OF LUDINGTON

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2011

### **Property Taxes:**

Property taxes attach as enforceable liens on properties as of December 31. The related property taxes are levied on September 1 and are payable from the date of levy through October 9 and are recognized as revenue the following year. The City bills and collects its own property taxes and also taxes for the county, school district, community college, the Ludington Area Mass Transit Authority, and the intermediate school district. Collections of all the taxes and remittances of them to the other taxing authorities are accounted for in an agency fund.

Revenues for 2011 include property taxes levied in 2010 but appropriated by a City ordinance to finance 2011 operations. Property taxes levied in 2011 for the operations of 2011 are a lien against properties and are an asset of the City. They are recorded as taxes receivable and deferred revenue at December 31, 2011. In 2010, the City levied property taxes on an assessed property tax value of \$267,327,011 (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 1.060 mills for police pension.

The Downtown Development Authority levied property taxes on an assessed property tax value of \$25,988,136 (exclusive of any Michigan Tax Tribunal or Board of Review adjustments). Taxes levied consisted of 1.6080 mills.

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

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### **Budgetary Information:**

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

1. Prior to November 1 of each year, the City Manager submits to the City Council a proposed operating budget for the year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. During the month of November, the City Council holds open meetings to review the budget in detail and to obtain taxpayer comments.
3. At the first Council meeting in December, the budget is legally enacted by adoption of the City Council.
4. Any revision that alters the total expenditures of any fund must be approved by the City Council.
5. Formal budgetary integration is employed as a management control device during the year for the general fund, the special revenue funds, and debt service funds. Formal budgetary integration is not employed for other funds, but informational summaries are prepared for the enterprise, the internal service and other funds to serve as a management control device and are presented to the City Council for consideration.
6. Governmental fund budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A comparison of actual results of operations to the General Fund and major Special Revenue Funds budgets as originally adopted and amended by the City Council is included in the required supplemental information.
7. All annual appropriations lapse at year end.

# CITY OF LUDINGTON

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2011

### 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, 2011	\$	-
Current year building permit revenue		19,079
Related expenses:		
Direct costs		<u>32,872</u>
Cumulative surplus at December 31, 2011	\$	<u>-</u>

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### NOTE 3: DEPOSITS AND INVESTMENTS

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Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency of instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Police Pension Trust Fund is also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity contracts, real estate leased to public entities, mortgages, real estate (if the trust funds assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

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

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

# CITY OF LUDINGTON

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2011

### Custodial Credit Risk of Bank Deposits:

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$8,047,647 of bank deposits (certificates of deposit, checking, and savings accounts), of which \$1,135,898 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

### Interest Rate Risk:

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

<u>Primary Government Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
U.S. Treasury bonds	\$ 1,141,049	1.87 years
U.S. Government obligations	501,860	3.16 years

### Credit Risk:

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

<u>Primary Government Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
U.S. Treasury bonds	\$ 1,141,049	Aaa	Moody's
U.S. Government obligations	501,860	Not Rated	N/A

  

<u>Fiduciary Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Mutual fund - equity	\$ 2,352,191	Not Rated	N/A
Mutual fund - fixed	1,269,357	Not Rated	N/A

### Concentration of Credit Risk:

The City places limits on the amount the City may invest in any one issuer. At December 31, 2011, there were no investments in any one issuer (other than the U.S. government and mutual funds) that exceeded more than 5 percent of total investments.

# CITY OF LUDINGTON

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2011

### 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, 2011 the City had these accounts established and had restricted cash as follows:

	<i>Restricted Cash and Investments</i>
<b>Sewer Fund:</b>	
Bond reserve	\$ 160,000
Equipment Replacement	307,004
<b>Water Fund:</b>	
Equipment Replacement	<u>589,013</u>
	<u>\$ 1,056,017</u>

### NOTE 5: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2011 was as follows:

	<i>January 1, 2011</i>	<i>Additions</i>	<i>Retirements</i>	<i>December 31, 2011</i>
<b>Governmental activities:</b>				
Nondepreciable capital assets:				
Land	\$ 262,280	\$ -	\$ -	\$ 262,280
Depreciable capital assets:				
Buildings and improvements	5,577,289	40,314	-	5,617,603
Furniture and equipment	223,243	9,832	-	233,075
Infrastructure	1,682,079	765,023	-	2,447,102
Land and site improvements	1,043,922	-	-	1,043,922
Machinery and equipment	4,952,064	147,838	(28,195)	5,071,707
Total depreciable capital assets	13,478,597	963,007	(28,195)	14,413,409
Accumulated depreciation	(5,065,592)	(482,083)	23,195	(5,524,480)
Depreciable capital assets, net	<u>8,413,005</u>	<u>480,924</u>	<u>(5,000)</u>	<u>8,888,929</u>
Governmental activities, capital assets, net	<u>\$ 8,675,285</u>	<u>\$ 480,924</u>	<u>\$ (5,000)</u>	<u>\$ 9,151,209</u>

# CITY OF LUDINGTON

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2011

	<u>January 1, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>December 31, 2011</u>
<b>Business-type activities:</b>				
Nondepreciable capital assets				
Land	\$ 867,055	\$ -	\$ -	\$ 867,055
Depreciable capital assets				
Buildings and improvements	4,353,654	25,769	-	4,379,423
Land improvements	3,313,960	-	-	3,313,960
Machinery and equipment	1,035,143	48,505	-	1,083,648
Sewer systems and plants	12,351,718	181,419	-	12,533,137
Water systems and plants	5,666,449	86,603	-	5,753,052
Total depreciable capital assets	26,720,924	342,296	-	27,063,220
Accumulated depreciation	(10,594,103)	(555,383)	-	(11,149,486)
Depreciable capital assets, net	16,126,821	(213,087)	-	15,913,734
Business-type activities, capital assets, net	<u>\$ 16,993,876</u>	<u>\$ (213,087)</u>	<u>\$ -</u>	<u>\$ 16,780,789</u>
<b>Component unit - DDA:</b>				
Depreciable capital assets				
Machinery and equipment	\$ 28,815	\$ -	\$ -	\$ 28,815
Accumulated depreciation	(6,278)	(5,293)	-	(11,571)
Depreciable capital assets, net	<u>\$ 22,537</u>	<u>\$ (5,293)</u>	<u>\$ -</u>	<u>\$ 17,244</u>

Depreciation expense was charged to functions as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Component Unit - DDA</u>
General government	\$ 100,947	\$ -	\$ -
Public safety	27,279	-	-
Public works	278,867	-	-
Health and welfare	4,235	-	-
Community and economic development	1,471	-	5,293
Recreation and culture	70,565	-	-
Sewer	-	241,248	-
Water	-	178,232	-
Marina	-	131,898	-
Cartier Park Campground	-	4,005	-
	<u>\$ 483,364</u>	<u>\$ 555,383</u>	<u>\$ 5,293</u>

# CITY OF LUDINGTON

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2011

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### NOTE 6: DEFERRED CHARGES

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In 2005, the City of Ludington issued general obligation bonds of \$2,135,000 to advance refund \$1,940,000 of general obligation bonds that were issued in 2000. The bond issuance costs in relation to this refunding were recorded as deferred charges on the statement of net assets and are being amortized over the life of the bond based on the amount of interest paid per year as a percentage of total interest.

	<i>January 1, 2011</i>	<i>2011 Amortization Expense</i>	<i>December 31, 2011</i>
Deferred charges	\$ 98,482	\$ 18,093	\$ 80,389

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### NOTE 7: DEFERRED REVENUE

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

	<i>Unearned</i>
<b>Primary Government:</b>	
Property taxes	\$ 3,548,985
Special assessments	7,294
Other	108,645
	<u>\$ 3,664,924</u>
<b>Component Unit:</b>	
Property taxes	<u>\$ 107,227</u>

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### NOTE 8: LONG-TERM LIABILITIES

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

# CITY OF LUDINGTON

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2011

Long-term obligation activity for the year ended December 31, 2011 is summarized as follows:

	<u>January 1, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31, 2011</u>	<u>Due Within One Year</u>
<b>Governmental Activities:</b>					
2005 Building Authority Refunding Bonds for \$2,135,000, with annual payments ranging from \$175,000-285,000 at 3.50-4.00% interest; Maturing through August 1, 2019	\$2,035,000	\$ -	\$ (175,000)	\$ 1,860,000	\$ 190,000
Compensated absences	94,726	6,221	(5,709)	95,238	-
Net OPEB obligation	<u>42,125</u>	<u>30,852</u>	<u>-</u>	<u>72,977</u>	<u>-</u>
Total Governmental Activities	<u>\$2,171,851</u>	<u>\$ 37,073</u>	<u>\$ (180,709)</u>	<u>\$ 2,028,215</u>	<u>\$ 190,000</u>
<b>Business-type Activities:</b>					
2007 Sewage Disposal System Junior Lien Revenue Bonds for \$1,500,000, with annual payments ranging from \$65,000-85,000 at 1.625% interest; Maturing through October 1, 2027	\$1,305,000	\$ -	\$ (65,000)	\$ 1,240,000	\$ 70,000
Compensated absences	39,084	3,762	-	42,846	-
Net OPEB obligation	<u>7,877</u>	<u>5,367</u>	<u>-</u>	<u>13,244</u>	<u>-</u>
Total Business-type Activities	<u>\$1,351,961</u>	<u>\$ 9,129</u>	<u>\$ (65,000)</u>	<u>\$ 1,296,090</u>	<u>\$ 70,000</u>

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

<i>Year Ended</i> <u>December 31,</u>	<u>Governmental Activities</u>			<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 190,000	\$ 72,440	\$ 262,440	\$ 70,000	\$ 20,150	\$ 90,150
2013	195,000	65,315	260,315	70,000	19,012	89,012
2014	210,000	57,515	267,515	70,000	17,874	87,874
2015	225,000	49,115	274,115	70,000	16,738	86,738
2016	240,000	40,115	280,115	75,000	15,600	90,600
2017-2021	800,000	64,370	864,370	385,000	59,638	444,638
2022-2026	-	-	-	415,000	27,382	442,382
2027	-	-	-	85,000	1,382	86,382
	<u>\$ 1,860,000</u>	<u>\$ 348,870</u>	<u>\$ 2,208,870</u>	<u>\$ 1,240,000</u>	<u>\$ 177,776</u>	<u>\$ 1,417,776</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, 2011 is \$636,525. These liabilities were incurred for the purchase of a fire truck and equipment for the Western Mason County Fire Authority (a joint venture). The fire truck and equipment, as well as the corresponding liabilities, have been assigned to the Authority and are not included in the financial statements of the City.

# CITY OF LUDINGTON

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2011

### NOTE 9: DISAGGREGATED RECEIVABLE AND PAYABLE BALANCES

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

	<i>Primary Government</i>			<i>Component Unit</i>
	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Total</i>	
<b>Receivables:</b>				
Property taxes	\$ 3,548,985	\$ -	\$ 3,548,985	\$ 107,227
Accounts	74,437	596,054	670,491	3,847
Special assessments	5,120	-	5,120	-
Notes	5,207	-	5,207	-
Accrued interest	1,867	1,132	2,999	34
Intergovernmental	364,497	341	364,838	-
Total receivables	<u>\$ 4,000,113</u>	<u>\$ 597,527</u>	<u>\$ 4,597,640</u>	<u>\$ 111,108</u>
<b>Accounts payable and accrued expenses:</b>				
Accounts	\$ 204,171	\$ 72,617	\$ 276,788	\$ 6,522
Payroll liabilities	67,445	29,612	97,057	-
Deposits payable	10,949	3,900	14,849	-
Accrued interest	30,183	-	30,183	-
Total accounts payable and accrued expenses	<u>\$ 312,748</u>	<u>\$ 106,129</u>	<u>\$ 418,877</u>	<u>\$ 6,522</u>

### NOTE 10: INTERFUND BALANCES AND TRANSFERS

There were no outstanding interfund receivable and payable balances at December 31, 2011.

The composition of interfund transfers at December 31, 2011 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	
	Recreation Fund	\$ 42,000
	W. Ludington Avenue Project Fund	17,361
	Major Street Fund	178,500
	Local Street Fund	185,200
	Senior Center Fund	42,300
	Cemetery Capital Improvement Fund	2,280
	Building Authority Bond Fund	253,565
Marina Fund	General Fund	675
	Total	<u>\$ 721,881</u>

# CITY OF LUDINGTON

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2011

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

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### NOTE 11: RISK MANAGEMENT

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

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

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### NOTE 12: EMPLOYEE RETIREMENT PLANS

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

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

*Plan Description* – The City contributes to the Michigan Municipal Employees' Retirement System, an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for governmental units in the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and postretirement adjustments to plan members and their beneficiaries.

All full-time employees, except policemen, are eligible to participate in the plan. Benefits vest after 10 years of service. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.5 percent times the final average compensation (FAC) with a maximum benefit of 80 percent of FAC. The most recent period of which actuarial data was available was for the year ended December 31, 2010.

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

# CITY OF LUDINGTON

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2011

**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 are not required to contribute to the plan and those hired after June 1, 2011 are required to contribute 5 percent. The City of Ludington is required to contribute at an actuarially determined rate; the current rate was 22.72 percent of eligible payroll based on the December 31, 2009 valuation.

**Annual Pension Costs** – For year ended December 31, 2011, the City's annual pension cost of \$444,060 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2009, 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 28 years.

Three year trend information as of December 31, follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Annual pension cost	\$ 444,060	\$ 438,611	\$ 456,155
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

**Funded Status** – As of December 31, 2010, the most recent actuarial valuation date, the plan was 80 percent funded. The actuarial accrued liability for benefits was \$16,153,327, and the actuarial value of assets was \$12,893,316, resulting in an unfunded actuarial accrued liability (UAAL) of \$3,260,011. The covered payroll (annual payroll of active employees covered by the plan) was \$1,977,617, and the ratio of the UAAL to the covered payroll was 165 percent.

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

### City of Ludington Police Defined Benefit Retirement System:

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

Membership in the plan consisted of the following at December 31, 2010:

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

# CITY OF LUDINGTON

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2011

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

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

**Method Used to Value Investments** - Investments of the plan are reported at fair value based on provided market values. Investment income is recognized as earned. The net appreciation in the fair value of investments is recognized as additions to assets. Gains and losses on the sale of securities are recognized on the transaction date. The plan's cash and investments at December 31, 2011 were as follows:

	<u>Fair Value</u>
Cash and cash equivalents	\$ 215,789
Investments - mutual funds	<u>3,469,910</u>
	<u>\$ 3,685,699</u>

**Contributions** - The obligation to contribute to the system for the police employees was established by negotiations between the City Council and the police bargaining unit (union contract). The contract requires the employees to contribute to the plan at a rate of 5% of eligible payroll. The City is required to contribute based on a property tax levy of 1.060 mills.

For the year ended December 31, 2011, the City made contributions of \$270,508 and the police employees contributed \$42,935.

Three year trend information as of December 31 follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Annual pension cost	\$ 270,508	\$ 260,631	\$ 253,829
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

**Funded Status** - As of December 31, 2010, the most recent actuarial valuation date, the plan was 62 percent funded. The actuarial accrued liability for benefits was \$5,982,747, and the actuarial value of assets was \$3,725,972, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,256,775. The covered payroll (annual payroll of active employees covered by the plan) was \$854,278, and the ratio of the UAAL to the covered payroll was 264 percent.

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

# CITY OF LUDINGTON

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2011

### **Deferred Compensation Plan:**

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

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

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

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

At the fund level, the expense is recognized by the City as the payments to the employees are made. During the year, this amounted to \$42,150.

**Funding Policy** – The City has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a “pay-as-you-go” basis). The City has made no contributions in advance.

**Annual Required Contribution Funding** – As of January 1, 2010, the City obtained an actuarial valuation to estimate the cost of providing retiree healthcare benefits. The actuarial valuation computed an annual required contribution that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

# CITY OF LUDINGTON

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## NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2011

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

For the year ended December 31, 2011:

Annual required contribution (recommended)	\$ 76,368
Interest on the prior year's net OPEB obligation	2,001
Less adjustment to the annual required contribution	<u>-</u>
Annual OPEB cost	78,369
Amounts contributed:	
Payments of current premiums	(42,150)
Advance funding	<u>-</u>
Increase in net OPEB obligation	36,219
OPEB obligation, beginning of year	<u>50,002</u>
OPEB obligation, end of year	<u><u>\$ 86,221</u></u>

The OPEB obligation is recorded as follows:

Governmental activities	\$ 72,977
Business-type activities	<u>13,244</u>
Total	<u><u>\$ 86,221</u></u>

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

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

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

In the January 1, 2010 calculation, the entry age actuarial cost method was used. The actuarial assumptions included a 4 percent investment rate of return. The UAAL, for purposes of calculating the annual required contribution (ARC), is being amortized as a level percent of payroll over 30 years.

# CITY OF LUDINGTON

## NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2011

### NOTE 14: REPORTING CHANGE AND PRIOR PERIOD ADJUSTMENT

As discussed in Note 1, the City adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund-type Definitions*. The objective of the Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund-type definitions. In order to conform the classifications of the funds to the appropriate fund types under these new definitions, beginning fund balances were restated as follows:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	
		<u>Waterfront Playground Fund</u>	<u>Movies in the Park Fund</u>
Fund balances December 31, 2010, previously stated	\$ 1,268,971	\$ 12,163	\$ 447
Reclassification under GASB No. 54 - fund merged into the General Fund:			
Waterfront Playground Fund	12,163	(12,163)	-
Movies in the Park Fund	447	-	(447)
Fund balances December 31, 2010, restated	<u>\$ 1,281,581</u>	<u>\$ -</u>	<u>\$ -</u>

***REQUIRED SUPPLEMENTAL INFORMATION***

# CITY OF LUDINGTON

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## SCHEDULE OF PENSION PLANS FUNDING PROGRESS

Year Ended December 31, 2011

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

<u>Actuarial Valuation Date</u>	<u>12/31/10</u>	<u>12/31/09</u>	<u>12/31/08</u>
Actuarial Value of Assets	\$ 12,893,316	\$ 12,777,284	\$ 12,720,838
Actuarial Accrued Liability (AAL)	16,153,327	15,938,047	16,211,613
Unfunded AAL (UAAL)	3,260,011	3,160,763	3,490,775
Funded Ratio	80%	80%	78%
Covered Payroll	1,977,617	1,919,604	2,213,525
UAAL as a percentage of covered payroll	165%	165%	158%

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

<u>Actuarial Valuation Date</u>	<u>12/31/10</u>	<u>12/31/09</u>	<u>12/31/08</u>
Actuarial Value of Assets	\$ 3,725,972	\$ 3,714,775	\$ 3,658,503
Actuarial Accrued Liability (AAL)	5,982,747	5,705,071	5,569,397
Unfunded AAL (UAAL)	2,256,775	1,990,296	1,910,894
Funded Ratio	62%	65%	66%
Covered Payroll	854,278	896,135	902,623
UAAL as a percentage of covered payroll	264%	222%	212%

# CITY OF LUDINGTON

## GENERAL FUND

### BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2011

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Actual</i>
	<i>Original</i>	<i>Final</i>		<i>Over (Under)</i>
				<i>Final Budget</i>
<b>Revenues:</b>				
Property taxes	\$ 3,642,900	\$ 3,721,300	\$ 3,717,651	\$ (3,649)
Licenses and permits	80,100	80,100	92,020	11,920
Federal grants	50,300	50,300	87,729	37,429
State grants	677,300	774,500	750,547	(23,953)
Contributions from other units	59,000	59,000	53,680	(5,320)
Charges for services	478,800	531,200	518,690	(12,510)
Fines and forfeits	33,000	33,000	36,654	3,654
Interest and rents	34,800	34,700	33,834	(866)
Other revenue	86,600	131,800	145,814	14,014
<b>Total revenues</b>	<b>5,142,800</b>	<b>5,415,900</b>	<b>5,436,619</b>	<b>20,719</b>
<b>Expenditures:</b>				
Current				
General government	1,288,300	1,308,200	1,306,797	(1,403)
Public safety	1,512,700	1,552,300	1,551,649	(651)
Public works	1,133,500	1,138,900	1,138,846	(54)
Community and economic development	95,800	146,200	146,028	(172)
Recreation and culture	412,300	418,400	418,205	(195)
Other	46,100	44,400	44,373	(27)
<b>Total expenditures</b>	<b>4,488,700</b>	<b>4,608,400</b>	<b>4,605,898</b>	<b>(2,502)</b>
Excess (deficiency) of revenues over expenditures	654,100	807,500	830,721	23,221
<b>Other financing sources (uses):</b>				
Transfers from (to) other funds	(654,100)	(719,100)	(715,971)	3,129
Change in fund balance	-	88,400	114,750	26,350
Fund balance, beginning of year, restated	1,281,581	1,281,581	1,281,581	-
Fund balance, end of year	\$ 1,281,581	\$ 1,369,981	\$ 1,396,331	\$ 26,350

# CITY OF LUDINGTON

## MAJOR STREET FUND

### BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2011

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Actual</i>
	<i>Original</i>	<i>Final</i>		<i>Over (Under)</i>
				<i>Final Budget</i>
<b>Revenues:</b>				
Federal grants	\$ 375,000	\$ 356,900	\$ 350,424	\$ (6,476)
State grants	433,100	415,500	419,977	4,477
Interest and rents	1,500	1,500	4,811	3,311
Other revenue	<u>1,200</u>	<u>1,200</u>	<u>664</u>	<u>(536)</u>
Total revenues	<u>810,800</u>	<u>775,100</u>	<u>775,876</u>	<u>776</u>
<b>Expenditures:</b>				
Current				
Public works	338,400	240,728	240,596	(132)
Capital outlay	<u>552,200</u>	<u>639,872</u>	<u>639,872</u>	<u>-</u>
Total expenditures	<u>890,600</u>	<u>880,600</u>	<u>880,468</u>	<u>(132)</u>
Excess (deficiency) of revenues over expenditures	<u>(79,800)</u>	<u>(105,500)</u>	<u>(104,592)</u>	<u>908</u>
<b>Other financing sources (uses):</b>				
Transfers from (to) other funds	<u>75,000</u>	<u>178,500</u>	<u>178,500</u>	<u>-</u>
Change in fund balance	(4,800)	73,000	73,908	908
Fund balance, beginning of year	<u>501,450</u>	<u>501,450</u>	<u>501,450</u>	<u>-</u>
Fund balance, end of year	<u>\$ 496,650</u>	<u>\$ 574,450</u>	<u>\$ 575,358</u>	<u>\$ 908</u>

***SUPPLEMENTAL INFORMATION***

# CITY OF LUDINGTON

## COMBINING GENERAL FUND

### COMBINING BALANCE SHEET

December 31, 2011

	<i>General Operating Fund</i>	<i>Waterfront Playground Activity</i>	<i>Movies in the Park Activity</i>	<i>Total General Fund</i>
<b>Assets:</b>				
Cash and investments	\$ 1,163,433	\$ 9,525	\$ 420	\$ 1,173,378
Taxes receivable	3,548,985	-	-	3,548,985
Accounts receivable	61,244	-	-	61,244
Special assessments receivable	5,021	-	-	5,021
Accrued interest receivable	436	3	-	439
Due from other governmental units	194,231	-	-	194,231
Inventory	10,478	-	-	10,478
Prepaid expenditures	133,256	-	-	133,256
Total assets	<u>\$ 5,145,820</u>	<u>\$ 9,528</u>	<u>\$ 420</u>	<u>\$ 5,155,768</u>
<b>Liabilities and Fund Balances:</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 142,385	\$ -	\$ 400	\$ 142,785
Accrued expenses	49,424	-	-	49,424
Deposits payable	10,949	-	-	10,949
Deferred revenue	3,556,279	-	-	3,556,279
Total liabilities	<u>3,759,037</u>	<u>-</u>	<u>400</u>	<u>3,759,437</u>
<b>Fund balances:</b>				
Nonspendable:				
Inventory	10,478	-	-	10,478
Prepaid expenditures	133,256	-	-	133,256
Assigned to:				
Waterfront playground equipment	-	9,528	-	9,528
Unassigned	1,243,049	-	20	1,243,069
Total fund balances	<u>1,386,783</u>	<u>9,528</u>	<u>20</u>	<u>1,396,331</u>
Total liabilities and fund balances	<u>\$ 5,145,820</u>	<u>\$ 9,528</u>	<u>\$ 420</u>	<u>\$ 5,155,768</u>

# CITY OF LUDINGTON

## COMBINING GENERAL FUND

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

December 31, 2011

	<i>General Operating Fund</i>	<i>Waterfront Playground Activity</i>	<i>Movies in the Park Activity</i>	<i>Total General Fund</i>
<b>Revenues:</b>				
Property taxes	\$ 3,717,651	\$ -	\$ -	\$ 3,717,651
Licenses and permits	92,020	-	-	92,020
Federal grants	87,729	-	-	87,729
State grants	750,547	-	-	750,547
Contributions from other units	52,380	-	1,300	53,680
Charges for services	518,690	-	-	518,690
Fines and forfeits	36,654	-	-	36,654
Interest and rents	33,716	111	7	33,834
Other revenue	145,814	-	-	145,814
Total revenues	<u>5,435,201</u>	<u>111</u>	<u>1,307</u>	<u>5,436,619</u>
<b>Expenditures:</b>				
Current				
General government	1,287,519	-	-	1,287,519
Public safety	1,510,893	-	-	1,510,893
Public works	1,138,846	-	-	1,138,846
Community and economic development	146,028	-	-	146,028
Recreation and culture	407,250	2,746	1,734	411,730
Other	44,373	-	-	44,373
Capital outlay	66,509	-	-	66,509
Total expenditures	<u>4,601,418</u>	<u>2,746</u>	<u>1,734</u>	<u>4,605,898</u>
Excess (deficiency) of revenues over expenditures	<u>833,783</u>	<u>(2,635)</u>	<u>(427)</u>	<u>830,721</u>
<b>Other financing sources (uses):</b>				
Transfers from (to) other funds	<u>(715,971)</u>	<u>-</u>	<u>-</u>	<u>(715,971)</u>
Changes in fund balances	117,812	(2,635)	(427)	114,750
Fund balances, beginning of year	<u>1,268,971</u>	<u>12,163</u>	<u>447</u>	<u>1,281,581</u>
Fund balances, end of year	<u>\$ 1,386,783</u>	<u>\$ 9,528</u>	<u>\$ 20</u>	<u>\$ 1,396,331</u>

# CITY OF LUDINGTON

## NONMAJOR GOVERNMENTAL FUNDS

### COMBINING BALANCE SHEET

December 31, 2011

	<i>Special Revenue Funds</i>				
	<i>Local Street Fund</i>	<i>Recreation Fund</i>	<i>Senior Center Fund</i>	<i>Building Rehab Fund</i>	<i>Cemetery Capital Improvement Fund</i>
<b>Assets:</b>					
Cash and investments	\$ 315,962	\$ 75,341	\$ 51,140	\$ 75,320	\$ 204,742
Notes receivable	-	-	-	5,207	-
Accrued interest receivable	91	26	19	-	70
Due from other governmental units	24,622	6,000	-	64,452	-
Prepaid expenditures	1,092	587	3,926	-	-
Total assets	<u>\$ 341,767</u>	<u>\$ 81,954</u>	<u>\$ 55,085</u>	<u>\$ 144,979</u>	<u>\$ 204,812</u>
<b>Liabilities and Fund Balances:</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 1,755	\$ 820	\$ 2,101	\$ 16,123	\$ -
Accrued expenses	5,243	1,142	2,532	-	-
Due to other funds	-	-	-	28,736	-
Deferred revenue	-	-	2,265	-	-
Total liabilities	<u>6,998</u>	<u>1,962</u>	<u>6,898</u>	<u>44,859</u>	<u>-</u>
<b>Fund balances:</b>					
Nonspendable:					
Prepaid expenditures	1,092	587	3,926	-	-
Long-term receivables	-	-	-	5,207	-
Restricted for:					
Streets	333,677	-	-	-	-
Senior center activities	-	-	44,261	-	-
Debt service	-	-	-	-	-
Contamination cleanup activities	-	-	-	-	-
Committed for:					
Recreation activities	-	79,405	-	-	-
Downtown building rehab	-	-	-	94,913	-
Cemetery capital improvements	-	-	-	-	204,812
Total fund balances	<u>334,769</u>	<u>79,992</u>	<u>48,187</u>	<u>100,120</u>	<u>204,812</u>
Total liabilities and fund balances	<u>\$ 341,767</u>	<u>\$ 81,954</u>	<u>\$ 55,085</u>	<u>\$ 144,979</u>	<u>\$ 204,812</u>

<i>Debt Service Fund</i>			
<i>Capital Projects Funds</i>			
<i>Building Authority Bond Fund</i>	<i>W. Ludington Avenue Project Fund</i>	<i>Watchcase Contamination Fund</i>	<i>Total</i>
\$ 2	\$ (12,589)	\$ 48,666	\$ 758,584
-	-	-	5,207
-	-	-	206
-	12,589	-	107,663
-	-	-	5,605
<u>\$ 2</u>	<u>\$ -</u>	<u>\$ 48,666</u>	<u>\$ 877,265</u>
\$ -	\$ -	\$ 253	\$ 21,052
-	-	-	8,917
-	-	-	28,736
-	-	-	2,265
-	-	253	60,970
-	-	-	5,605
-	-	-	5,207
-	-	-	333,677
-	-	-	44,261
2	-	-	2
-	-	48,413	48,413
-	-	-	79,405
-	-	-	94,913
-	-	-	204,812
<u>2</u>	<u>-</u>	<u>48,413</u>	<u>816,295</u>
<u>\$ 2</u>	<u>\$ -</u>	<u>\$ 48,666</u>	<u>\$ 877,265</u>

# CITY OF LUDINGTON

## NONMAJOR GOVERNMENTAL FUNDS

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

Year Ended December 31, 2011

	<i>Special Revenue Funds</i>				
	<i>Local Street Fund</i>	<i>Recreation Fund</i>	<i>Senior Center Fund</i>	<i>Building Rehab Fund</i>	<i>Cemetery Capital Improvement Fund</i>
<b>Revenues:</b>					
Federal grants	\$ -	\$ -	\$ 9,527	\$ 290,168	\$ -
State grants	190,883	-	-	-	-
Contributions from other units	-	42,248	93,180	-	-
Charges for services	-	50,069	18,674	-	-
Interest and rents	3,285	856	791	(1)	2,280
Other revenue	172	12,317	15,871	24,269	2,625
Total revenues	<u>194,340</u>	<u>105,490</u>	<u>138,043</u>	<u>314,436</u>	<u>4,905</u>
<b>Expenditures:</b>					
Current					
General government	-	-	-	-	18,803
Public works	280,286	-	-	-	-
Health and welfare	-	-	163,723	-	-
Community and economic development	-	-	-	309,167	-
Recreation and culture	-	143,545	-	-	-
Capital outlay	124,503	-	2,479	-	33,839
Debt service					
Principal	-	-	-	-	-
Interest and fees	-	-	-	-	-
Total expenditures	<u>404,789</u>	<u>143,545</u>	<u>166,202</u>	<u>309,167</u>	<u>52,642</u>
Excess (deficiency) of revenues over expenditures	<u>(210,449)</u>	<u>(38,055)</u>	<u>(28,159)</u>	<u>5,269</u>	<u>(47,737)</u>
<b>Other financing sources (uses):</b>					
Transfers from (to) other funds	185,200	42,000	42,300	-	(2,280)
Changes in fund balances	(25,249)	3,945	14,141	5,269	(50,017)
Fund balances, beginning of year	<u>360,018</u>	<u>76,047</u>	<u>34,046</u>	<u>94,851</u>	<u>254,829</u>
Fund balances, end of year	<u>\$ 334,769</u>	<u>\$ 79,992</u>	<u>\$ 48,187</u>	<u>\$ 100,120</u>	<u>\$ 204,812</u>

<i>Debt Service Fund</i>	<i>Capital Projects Funds</i>		<i>Total</i>
	<i>W. Ludington Avenue Project Fund</i>	<i>Watchcase Contamination Fund</i>	
\$ -	\$ -	\$ -	\$ 299,695
-	-	-	190,883
-	-	-	135,428
-	-	-	68,743
-	-	(1)	7,210
-	-	-	55,254
-	-	(1)	757,213
-	-	-	18,803
-	-	-	280,286
-	-	-	163,723
-	-	45,185	354,352
-	17,361	-	160,906
-	-	-	160,821
175,000	-	-	175,000
78,565	-	-	78,565
253,565	17,361	45,185	1,392,456
(253,565)	(17,361)	(45,186)	(635,243)
253,565	17,361	-	538,146
-	-	(45,186)	(97,097)
2	-	93,599	913,392
\$ 2	\$ -	\$ 48,413	\$ 816,295

# CITY OF LUDINGTON

## INTERNAL SERVICE FUNDS

### COMBINING STATEMENT OF NET ASSETS

December 31, 2011

	<u>Motor Pool</u> <u>Fund</u>	<u>Technology</u> <u>Fund</u>	<u>Total</u>
<b>Assets:</b>			
<b>Current assets:</b>			
Cash and investments	\$ 295,349	\$ 650	\$ 295,999
Accounts receivable	13,130	-	13,130
Accrued interest receivable	99	-	99
Due from other governmental units	1,059	-	1,059
Inventory	53,823	-	53,823
Prepaid expenses	42,288	-	42,288
Total current assets	<u>405,748</u>	<u>650</u>	<u>406,398</u>
<b>Noncurrent assets:</b>			
Capital assets:			
Nondepreciable capital assets	4,250	-	4,250
Depreciable capital assets, net	<u>3,006,184</u>	<u>35,951</u>	<u>3,042,135</u>
Total noncurrent assets	<u>3,010,434</u>	<u>35,951</u>	<u>3,046,385</u>
Total assets	<u>3,416,182</u>	<u>36,601</u>	<u>3,452,783</u>
<b>Liabilities:</b>			
<b>Current liabilities:</b>			
Accounts payable	9,041	649	9,690
Accrued expenses	<u>4,793</u>	<u>-</u>	<u>4,793</u>
Total current liabilities	<u>13,834</u>	<u>649</u>	<u>14,483</u>
<b>Noncurrent liabilities:</b>			
Compensated absences payable	<u>7,988</u>	<u>-</u>	<u>7,988</u>
Total liabilities	<u>21,822</u>	<u>649</u>	<u>22,471</u>
<b>Net assets:</b>			
Invested in capital assets, net of related debt	3,010,434	35,951	3,046,385
Unrestricted	<u>383,926</u>	<u>1</u>	<u>383,927</u>
Total net assets	<u>\$ 3,394,360</u>	<u>\$ 35,952</u>	<u>\$ 3,430,312</u>

# CITY OF LUDINGTON

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## INTERNAL SERVICE FUNDS

### COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Year Ended December 31, 2011

	<i>Motor Pool</i>	<i>Technology</i>	
	<u>Fund</u>	<u>Fund</u>	<u>Total</u>
<b>Operating revenues:</b>			
Equipment rental - interfund charges	\$ 595,673	\$ 88,476	\$ 684,149
Other	163,724	-	163,724
Total operating revenues	<u>759,397</u>	<u>88,476</u>	<u>847,873</u>
<b>Operating expenses:</b>			
Personnel	165,260	-	165,260
Fringe benefits	92,462	-	92,462
Supplies	312,062	18,525	330,587
Contracted services	12,983	46,304	59,287
Administrative expense	54,600	-	54,600
Telephone	2,929	-	2,929
Education and training	33	-	33
Insurance	66,455	-	66,455
Utilities	34,180	-	34,180
Repairs and maintenance	103,256	220	103,476
Equipment rental	1,285	-	1,285
Other services and supplies	8,039	-	8,039
Depreciation	200,850	9,827	210,677
Total operating expenses	<u>1,054,394</u>	<u>74,876</u>	<u>1,129,270</u>
Operating income (loss)	<u>(294,997)</u>	<u>13,600</u>	<u>(281,397)</u>
<b>Non-operating revenues (expenses):</b>			
Interest income	3,932	-	3,932
Net gain on sale/disposal of capital assets	1,800	-	1,800
Net non-operating revenues	<u>5,732</u>	<u>-</u>	<u>5,732</u>
Changes in net assets	(289,265)	13,600	(275,665)
Net assets, beginning of year	<u>3,683,625</u>	<u>22,352</u>	<u>3,705,977</u>
Net assets, end of year	<u>\$ 3,394,360</u>	<u>\$ 35,952</u>	<u>\$ 3,430,312</u>

# CITY OF LUDINGTON

## INTERNAL SERVICE FUNDS

### COMBINING STATEMENT OF CASH FLOWS

Year Ended December 31, 2011

	<i>Motor Pool Fund</i>	<i>Technology Fund</i>	<i>Total</i>
<b>Cash flows from operating activities:</b>			
Cash received from customers	\$ 159,421	\$ -	\$ 159,421
Cash received from interfund services	595,673	88,476	684,149
Cash payments to employees	(164,239)	-	(164,239)
Cash payments to suppliers for goods and services	(673,610)	(64,077)	(737,687)
Net cash provided (used) by operating activities	<u>(82,755)</u>	<u>24,399</u>	<u>(58,356)</u>
<b>Cash flows from capital and related financing activities:</b>			
Net gain on sale/disposal of capital asset	6,800	-	6,800
Acquisition of capital assets	(83,600)	(23,749)	(107,349)
Net cash provided by capital and related financing activities	<u>(76,800)</u>	<u>(23,749)</u>	<u>(100,549)</u>
<b>Cash flows from investing activities:</b>			
Interest received	4,709	-	4,709
Net increase (decrease) in cash and investments	(154,846)	650	(154,196)
Cash and investments, beginning of year	450,195	-	450,195
Cash and investments, end of year	<u>\$ 295,349</u>	<u>\$ 650</u>	<u>\$ 295,999</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>			
Operating income (loss)	\$ (294,997)	\$ 13,600	\$ (281,397)
Adjustments:			
Depreciation	200,850	9,827	210,677
Change in assets and liabilities:			
Accounts receivable	(4,233)	-	(4,233)
Due from other governmental units	(70)	-	(70)
Inventory	14,286	-	14,286
Prepaid expenses	3,024	2,609	5,633
Accounts payable	(2,636)	(1,637)	(4,273)
Accrued expenses	111	-	111
Compensated absences payable	910	-	910
Net cash provided (used) by operating activities	<u>\$ (82,755)</u>	<u>\$ 24,399</u>	<u>\$ (58,356)</u>

# CITY OF LUDINGTON

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## GOVERNMENTAL ACTIVITIES

### SCHEDULE OF INDEBTEDNESS

December 31, 2011

#### 2005 BUILDING AUTHORITY REFUNDING BONDS

Issue in the amount of	\$ 2,135,000
Less: Principal paid in prior years	(100,000)
Principal paid in current year	<u>(175,000)</u>
Balance payable at December 31, 2011	<u>\$ 1,860,000</u>

Balance payable as follows:

<i>Fiscal Year Ended</i>	<i>Interest Rate</i>	<i>Interest due February 1</i>	<i>Interest due August 1</i>	<i>Principal due August 1</i>	<i>Total Annual Requirement</i>
2012	3.75%	\$ 36,220	\$ 36,220	\$ 190,000	\$ 262,440
2013	4.00%	32,658	32,657	195,000	260,315
2014	4.00%	28,757	28,758	210,000	267,515
2015	4.00%	24,558	24,557	225,000	274,115
2016	3.70%	20,057	20,058	240,000	280,115
2017	3.80%	15,618	15,617	250,000	281,235
2018	3.90%	10,867	10,868	265,000	286,735
2019	4.00%	<u>5,700</u>	<u>5,700</u>	<u>285,000</u>	<u>296,400</u>
		<u>\$ 174,435</u>	<u>\$ 174,435</u>	<u>\$ 1,860,000</u>	<u>\$ 2,208,870</u>

# CITY OF LUDINGTON

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## BUSINESS-TYPE ACTIVITIES

### SCHEDULE OF INDEBTEDNESS

December 31, 2011

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

Issue in the amount of	\$ 1,500,000
Less: Principal paid in prior years	(195,000)
Principal paid in current year	<u>(65,000)</u>
Balance payable at December 31, 2011	<u>\$ 1,240,000</u>

Balance payable as follows:

<i>Fiscal Year Ended</i>	<i>Interest Rate</i>	<i>Interest due April 1</i>	<i>Interest due October 1</i>	<i>Principal due October 1</i>	<i>Total Annual Requirement</i>
2012	1.625%	\$ 10,075	\$ 10,075	\$ 70,000	\$ 90,150
2013	1.625%	9,506	9,506	70,000	89,012
2014	1.625%	8,937	8,937	70,000	87,874
2015	1.625%	8,369	8,369	70,000	86,738
2016	1.625%	7,800	7,800	75,000	90,600
2017	1.625%	7,191	7,191	75,000	89,382
2018	1.625%	6,581	6,581	75,000	88,162
2019	1.625%	5,972	5,972	75,000	86,944
2020	1.625%	5,363	5,363	80,000	90,726
2021	1.625%	4,712	4,712	80,000	89,424
2022	1.625%	4,063	4,063	80,000	88,126
2023	1.625%	3,412	3,412	80,000	86,824
2024	1.625%	2,763	2,763	85,000	90,526
2025	1.625%	2,072	2,072	85,000	89,144
2026	1.625%	1,381	1,381	85,000	87,762
2027	1.625%	691	691	85,000	86,382
		<u>\$ 88,888</u>	<u>\$ 88,888</u>	<u>\$ 1,240,000</u>	<u>\$ 1,417,776</u>



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

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

We have audited the financial statements of the City of Ludington as of and for the year ended December 31, 2011, and have issued our report thereon dated April 11, 2012. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Ludington's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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 misstatements on a timely basis. A *material weakness* is a deficiency, or 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

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

This report is intended solely for the information and use of management, the City Council, federal awarding agencies and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

*Berthiaume & Co.*

Saginaw, Michigan  
April 11, 2012