

# **CITY OF LUDINGTON**

Mason County, Michigan

## **FINANCIAL STATEMENTS**

December 31, 2015

# CITY OF LUDINGTON

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## TABLE OF CONTENTS

	PAGE
<b>INDEPENDENT AUDITORS' REPORT</b> .....	1
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b> .....	4
<b>BASIC FINANCIAL STATEMENTS:</b>	
<b>Government-wide Financial Statements:</b>	
Statement of Net Position.....	12
Statement of Activities .....	13
<b>Fund Financial Statements:</b>	
<b>Governmental Funds:</b>	
Balance Sheet .....	15
Reconciliation of Fund Balances of Governmental Funds to Net Position of Governmental Activities .....	16
Statement of Revenues, Expenditures and Changes in Fund Balances .....	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	18
<b>Proprietary Funds:</b>	
Statement of Net Position.....	19
Statement of Revenues, Expenses and Changes in Fund Net Position.....	21
Statement of Cash Flows .....	23
<b>Fiduciary Funds:</b>	
Statement of Fiduciary Net Position.....	25
Statement of Changes in Fiduciary Net Position.....	26
<b>Notes to Financial Statements</b> .....	28
<b>REQUIRED SUPPLEMENTARY INFORMATION:</b>	
Schedule of Other Postemployment Benefits Funding Progress.....	54
Schedules of Changes in the City's General (MERS) Net Pension Liability and Related Ratios.....	55
Schedule of Changes in the City's Police Net Pension Liability and Related Ratios.....	56
Schedule of City General (MERS) Defined Benefit Pension Contributions.....	57
Schedule of City Police Defined Benefit Pension Contributions.....	58
Budgetary Comparison Schedule – General Fund.....	59
<b>OTHER SUPPLEMENTARY INFORMATION:</b>	
<b>Nonmajor Governmental Funds:</b>	
Combining Balance Sheet .....	62
Combining Statement of Revenues, Expenditures and Changes in Fund Balances .....	64
<b>Internal Service Funds:</b>	
Combining Statement of Net Position.....	66
Combining Statement of Revenues, Expenses and Changes in Fund Net Position.....	67
Combining Statement of Cash Flows.....	68
<b>Schedules of Indebtedness</b> .....	69
<b>Independent Auditors' 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</b> .....	71



## INDEPENDENT AUDITORS' REPORT

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

### Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Ludington as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Ludington as of December 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

### **Change in Accounting Principle and Emphasis of Matter**

During the year ended December 31, 2015, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*. As a result of implementing this pronouncement, and also as discussed in Note 14, the City's net pension liability has been recognized on the government-wide and proprietary statements and prior year net position has been restated. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 4 through 10), schedule other postemployment benefits funding progress (page 54), schedules of changes in the City's General (MERS) and the City's Police net pension liability and related ratios (pages 55 and 56), schedules of City and City Police pension contributions (pages 57 and 58), and budgetary comparison information (pages 59 and 60) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

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

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

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2016 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.

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

The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Ludington's internal control over financial reporting and compliance.

*Berthiaume & Co.*

Saginaw, Michigan  
April 25, 2016

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

# CITY OF LUDINGTON

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2015

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, 2015. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the financial statements and the notes to the financial statements.

### FINANCIAL HIGHLIGHTS:

- The City's combined total net position is reported as \$24,786,216 for the year ended December 31, 2015, compared to \$24,123,323 for the year ended December 31, 2014 (restated).
- In the City's governmental activities, revenues generated were \$7,880,018 while expenses totaled \$7,088,005.
- In the City's business-type activities, revenues generated were \$4,131,286 while expenses totaled \$4,260,406.
- Total net position increased by \$662,893.

### OVERVIEW OF THE FINANCIAL STATEMENTS:

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

#### Government-wide Financial Statements:

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

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

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

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

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

# CITY OF LUDINGTON

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2015

### **Fund Financial Statements:**

The fund financial statements provide more detailed information about the City's most significant funds, not the City as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives.

The City has three types of funds:

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

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

The City maintains nine (9) individual governmental funds. Separate information is presented for the General Fund, which is considered a "major" fund. Data from the other eight (8) governmental funds, considered to be "nonmajor" funds, are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

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

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

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

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

### **Notes to the Financial Statements:**

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

### **Other Information:**

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

# CITY OF LUDINGTON

## MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2015

### CITY OF LUDINGTON AS A WHOLE:

The City's total combined net position for the year ended December 31, 2015 is \$24,786,216, consisting of \$8,876,394 in governmental activities and \$15,909,822 in business-type activities.

Combined unrestricted net position, that part of net position that can be used to finance day-to-day operations, is a deficit of \$4,689,187. Governmental activities unrestricted total is a deficit of \$3,670,490, while business-type activities is a deficit of \$1,018,697.

The following table shows comparisons of total assets, deferred outflows and inflows, total liabilities, and total net position in a condensed format for the government-wide net position at December 31, 2015 and 2014 (restated):

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
<b>Assets:</b>						
Current assets	\$ 7,387,851	\$ 7,004,482	\$ 2,720,092	\$ 2,779,006	\$ 10,107,943	\$ 9,783,488
Noncurrent assets:						
Restricted assets	-	-	240,000	220,000	240,000	220,000
Capital assets, net	<u>12,915,111</u>	<u>12,153,460</u>	<u>16,838,442</u>	<u>16,785,476</u>	<u>29,753,553</u>	<u>28,938,936</u>
Total assets	<u>20,302,962</u>	<u>19,157,942</u>	<u>19,798,534</u>	<u>19,784,482</u>	<u>40,101,496</u>	<u>38,942,424</u>
<b>Deferred outflows of resources</b>	<u>2,004,449</u>	<u>35,386</u>	<u>390,092</u>	<u>-</u>	<u>2,394,541</u>	<u>35,386</u>
<b>Liabilities:</b>						
Other liabilities	328,858	349,433	267,639	213,744	596,497	563,177
Long-term liabilities	<u>9,164,949</u>	<u>6,879,249</u>	<u>4,011,165</u>	<u>3,531,796</u>	<u>13,176,114</u>	<u>10,411,045</u>
Total liabilities	<u>9,493,807</u>	<u>7,228,682</u>	<u>4,278,804</u>	<u>3,745,540</u>	<u>13,772,611</u>	<u>10,974,222</u>
<b>Deferred inflows of resources</b>	<u>3,937,210</u>	<u>3,880,265</u>	<u>-</u>	<u>-</u>	<u>3,937,210</u>	<u>3,880,265</u>
<b>Net position:</b>						
Net investment in capital assets	11,829,588	10,825,845	15,878,442	15,755,476	27,708,030	26,581,321
Restricted	717,296	410,764	1,050,077	1,176,017	1,767,373	1,586,781
Unrestricted (deficit)	<u>(3,670,490)</u>	<u>(3,152,228)</u>	<u>(1,018,697)</u>	<u>(892,551)</u>	<u>(4,689,187)</u>	<u>(4,044,779)</u>
Total net position	<u>\$ 8,876,394</u>	<u>\$ 8,084,381</u>	<u>\$ 15,909,822</u>	<u>\$ 16,038,942</u>	<u>\$ 24,786,216</u>	<u>\$ 24,123,323</u>

During the current year, the City's combined total net position increased by \$662,893 from the prior year balance, as restated. Governmental activities increased by \$792,013 while business-type activities decreased by \$129,120.

# CITY OF LUDINGTON

## MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2015

The following table shows comparison of the change in net position in a condensed format for the years ended December 31, 2015 and 2014 (restated):

	<i>Governmental</i>		<i>Business-type</i>		<i>Total</i>	
	<i>Activities</i>	<i>Activities</i>	<i>Activities</i>	<i>Activities</i>	<i>Activities</i>	<i>Activities</i>
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Net position, beginning of year, restated	\$ 8,084,381	\$13,194,558	\$16,038,942	\$18,884,116	\$24,123,323	\$32,078,674
<b>Revenues:</b>						
Program revenues						
Charges for services	708,099	692,271	4,119,717	3,700,302	4,827,816	4,392,573
Operating grants	1,182,916	1,015,835	-	-	1,182,916	1,015,835
Capital grants	1,135,601	375,236	-	-	1,135,601	375,236
General revenues						
Property taxes	3,880,073	3,747,599	-	-	3,880,073	3,747,599
Franchise fees	88,177	84,774	-	-	88,177	84,774
State revenue sharing	737,328	745,527	-	-	737,328	745,527
Investment earnings	25,778	18,300	11,537	10,140	37,315	28,440
Other	122,046	29,533	32	5,467	122,078	35,000
Total revenues	<u>7,880,018</u>	<u>6,709,075</u>	<u>4,131,286</u>	<u>3,715,909</u>	<u>12,011,304</u>	<u>10,424,984</u>
<b>Expenses:</b>						
General government	1,598,051	1,485,838	-	-	1,598,051	1,485,838
Public safety	2,073,827	1,766,552	-	-	2,073,827	1,766,552
Public works	2,393,150	2,203,353	-	-	2,393,150	2,203,353
Health and welfare	181,226	189,924	-	-	181,226	189,924
Community and economic development	93,583	110,321	-	-	93,583	110,321
Recreation and culture	691,481	708,402	-	-	691,481	708,402
Interest on long-term debt	56,687	67,270	-	-	56,687	67,270
Sewer	-	-	1,454,092	1,396,697	1,454,092	1,396,697
Water	-	-	1,787,406	1,632,866	1,787,406	1,632,866
Marina	-	-	815,039	896,764	815,039	896,764
Cartier Park Campground	-	-	203,869	199,216	203,869	199,216
Total expenses	<u>7,088,005</u>	<u>6,531,660</u>	<u>4,260,406</u>	<u>4,125,543</u>	<u>11,348,411</u>	<u>10,657,203</u>
Excess of revenues over expenses before other	<u>792,013</u>	<u>177,415</u>	<u>(129,120)</u>	<u>(409,634)</u>	<u>662,893</u>	<u>(232,219)</u>
<b>Other items:</b>						
Sale of capital assets	-	12,948	-	-	-	12,948
Transfers	-	559	-	(559)	-	-
Total other items	<u>-</u>	<u>13,507</u>	<u>-</u>	<u>(559)</u>	<u>-</u>	<u>12,948</u>
<b>Changes in net position</b>	<u>792,013</u>	<u>190,922</u>	<u>(129,120)</u>	<u>(410,193)</u>	<u>662,893</u>	<u>(219,271)</u>
<b>Impact of GASB Statement No. 68 *</b>	<u>-</u>	<u>(5,301,099)</u>	<u>-</u>	<u>(2,434,981)</u>	<u>-</u>	<u>(7,736,080)</u>
Net position, end of year	<u>\$ 8,876,394</u>	<u>\$ 8,084,381</u>	<u>\$15,909,822</u>	<u>\$16,038,942</u>	<u>\$24,786,216</u>	<u>\$24,123,323</u>

# CITY OF LUDINGTON

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2015

\* GASB Statement No. 68 was implemented by the City in 2015. The 2014 expense amounts shown in the condensed statement on page 8 have not been modified to reflect the retroactive application of the change; however, the ending net position for that year was adjusted to properly state the 2015 beginning net position.

### **CITY OF LUDINGTON'S FUNDS:**

Presentation of the City of Ludington's major funds begins on page 15, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. Funds are created to help manage money for specific purposes, as well as show accountability for certain activities, such as specific property tax millages and restricted receipts from Federal and State sources.

The General Fund is the City's largest governmental fund and the only governmental fund that is considered a major fund. It pays for most of the City's government services. Its major components of revenue are property taxes and state shared revenue. For the year ended December 31, 2015, General Fund financing uses exceeded its financing sources by \$4,932, decreasing its ending fund balance to \$1,486,207.

### **General Fund Budgetary Highlights:**

The General Fund budget, as originally adopted, projected no change in fund balance. During the year, the City made budget amendments that changed the projection to a net decrease in fund balance of \$5,200. The actual results for the year yielded a net decrease in fund balance of \$4,932.

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

- Revenue from the sale of boat ramp stickers increased \$13,140
- Interest income increased \$11,100
- Grave openings and sale of gravesites increased \$19,750
- Building permit fees increased \$4,500

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

- The City's pension cost increased \$56,294 more than anticipated over all of the City's funds due to closing of the B-4 pension plan in 2011. All new employees hired on or after June 1, 2011 are now on a less expensive pension plan. Other benefit increases were in workers' compensation and in health insurance taxes as a result of the Affordable Care Act.
- Election costs increased \$13,100 over the original budget. This cost was offset by the increase in reimbursements for the elections.
- The City spent an additional \$9,872 in legal fees, which were paid in connection with responding to Freedom of Information Act (FOIA) requests.
- New LED streetlights were purchased for \$35,000 that was a cost not in the original budget. The City expects to recoup this cost in the next few years in the form of reduced electrical costs.
- Additional costs of \$7,400 were incurred for the community calendar; a cost that was not originally budgeted.

### **Capital Assets and Debt Administration:**

At December 31, 2015, the City of Ludington had \$29,753,553 invested in capital assets including land, buildings, equipment, land improvements, water and sewer lines and other infrastructure, net of accumulated depreciation. At December 31, 2014, this total was \$28,938,936. Additional information about the City's capital assets is presented in Note 1 and Note 5 of the Notes to the Financial Statements.

# CITY OF LUDINGTON

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2015

At December 31, 2015, the City of Ludington's total long-term indebtedness (not including liabilities for compensated absences payable, net OPEB obligation, and net pension liability) was \$2,045,523, of which \$1,085,523 was backed by the full faith and credit of the City and the remaining \$960,000 is backed solely by specified revenue sources. Additional information about the City's indebtedness is presented in Note 6 of the Notes to the Financial Statements.

### **Economic Factors:**

The City continues to maintain positive fund balances in each of its funds. Property values have begun to rise again but the loss of personal property tax revenue along with the State-imposed limitations on municipal revenues continue to challenge the City's ability to generate additional revenues. The increasing cost of pensions, healthcare, and old worn out infrastructure will present significant budgetary challenges.

The City has approved a budget for 2016 where the City is expected to use \$41,600 of its fund balance in the General Fund. With this use of fund balance, the City will still maintain 25% fund balance in the General Fund. The City has again completed a three-year financial projection through the year 2018 to monitor the effects of the economy on the revenues and expenditures of its major funds, as well as to identify trends that could impact the City's operations.

The City will issue bonds in 2016 and 2017 in the approximate amount of \$32.5 million to finance the cost of upgrades to the water and sewer mains along with replacing curbs and roads over these mains. There will also be upgrades to the water treatment plant and wastewater treatment plant pursuant to the requirement of the Michigan Department of Environmental Quality (MDEQ). In order to repay these bonds, the City has and will continue to increase the water and sewer rates and readiness-to-serve charges to cover operating expenses, capital expenses, debt service and depreciation expenses.

### **Contacting the City's Financial Management:**

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

***BASIC FINANCIAL STATEMENTS***

# CITY OF LUDINGTON

## STATEMENT OF NET POSITION December 31, 2015

	<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	\$ 2,423,243	\$ 1,904,252	\$ 4,327,495	\$ 123,425
Receivables	4,350,058	851,960	5,202,018	122,913
Internal balances	311,208	(311,208)	-	-
Inventory	151,901	203,347	355,248	-
Prepaid expenses	151,441	71,741	223,182	4,655
Restricted cash and investments	-	240,000	240,000	-
Capital assets not being depreciated	262,280	880,826	1,143,106	-
Capital assets being depreciated, net	<u>12,652,831</u>	<u>15,957,616</u>	<u>28,610,447</u>	<u>19,014</u>
Total assets	<u>20,302,962</u>	<u>19,798,534</u>	<u>40,101,496</u>	<u>270,007</u>
<b>Deferred outflows of resources:</b>				
Refunding bond costs	24,063	-	24,063	-
Pension	<u>1,980,386</u>	<u>390,092</u>	<u>2,370,478</u>	<u>-</u>
	<u>2,004,449</u>	<u>390,092</u>	<u>2,394,541</u>	<u>-</u>
<b>Liabilities:</b>				
Accounts payable and accrued expenses	266,627	173,944	440,571	12,530
Unearned revenue	62,231	93,695	155,926	1,000
Long-term liabilities:				
Due within one year	257,832	75,000	332,832	-
Due in more than one year	<u>8,907,117</u>	<u>3,936,165</u>	<u>12,843,282</u>	<u>-</u>
Total liabilities	<u>9,493,807</u>	<u>4,278,804</u>	<u>13,772,611</u>	<u>13,530</u>
<b>Deferred inflows of resources:</b>				
Property taxes levied in advance	3,924,167	-	3,924,167	114,827
Pension	<u>13,043</u>	<u>-</u>	<u>13,043</u>	<u>-</u>
Total deferred inflow of resources	<u>3,937,210</u>	<u>-</u>	<u>3,937,210</u>	<u>114,827</u>
<b>Net position:</b>				
Net investment in capital assets	11,829,588	15,878,442	27,708,030	7,480
Restricted for:				
Debt service	2	240,000	240,002	-
Equipment replacement	-	810,077	810,077	-
Senior center activities	55,240	-	55,240	-
Streets	662,054	-	662,054	-
Unrestricted (deficit)	<u>(3,670,490)</u>	<u>(1,018,697)</u>	<u>(4,689,187)</u>	<u>134,170</u>
Total net position	<u>\$ 8,876,394</u>	<u>\$ 15,909,822</u>	<u>\$ 24,786,216</u>	<u>\$ 141,650</u>

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

# CITY OF LUDINGTON

## STATEMENT OF ACTIVITIES Year Ended December 31, 2015

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>			<b>Net (Expense) Revenue</b>
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	
<b>PRIMARY GOVERNMENT:</b>					
<i>Governmental activities:</i>					
General government	\$ 1,598,051	\$ 397,154	\$ 4,000	\$ -	\$ (1,196,897)
Public safety	2,073,827	91,600	55,465	-	(1,926,762)
Public works	2,393,150	100,392	838,164	62,334	(1,392,260)
Health and welfare	181,226	7,539	169,708	-	(3,979)
Community and economic development	93,583	1,610	11,200	-	(80,773)
Recreation and culture	691,481	109,804	104,379	1,073,267	595,969
Interest on long-term debt	56,687	-	-	-	(56,687)
Total governmental activities	<u>7,088,005</u>	<u>708,099</u>	<u>1,182,916</u>	<u>1,135,601</u>	<u>(4,061,389)</u>
<i>Business-type activities:</i>					
Sewer	1,454,092	1,433,416	-	-	(20,676)
Water	1,787,406	1,737,772	-	-	(49,634)
Marina	815,039	729,467	-	-	(85,572)
Cartier Park Campground	203,869	219,062	-	-	15,193
Total business-type activities	<u>4,260,406</u>	<u>4,119,717</u>	<u>-</u>	<u>-</u>	<u>(140,689)</u>
Total primary government	<u>\$ 11,348,411</u>	<u>\$ 4,827,816</u>	<u>\$ 1,182,916</u>	<u>\$ 1,135,601</u>	<u>\$ (4,202,078)</u>
<b>COMPONENT UNIT:</b>					
Downtown development authority	<u>\$ 243,443</u>	<u>\$ 3,128</u>	<u>\$ 75,695</u>	<u>\$ -</u>	<u>\$ (164,620)</u>

continued

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

# CITY OF LUDINGTON

## STATEMENT OF ACTIVITIES, CONTINUED

Year Ended December 31, 2015

	<i>Primary Government</i>			<i>Component Unit</i>
	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Total</i>	
<i>Changes in net position:</i>				
Net (Expense) Revenue	\$ (4,061,389)	\$ (140,689)	\$ (4,202,078)	\$ (164,620)
General revenues:				
Taxes:				
Property taxes, levied for general purpose	3,801,934	-	3,801,934	-
Property taxes, levied and captured by DDA	-	-	-	113,331
Payment in lieu of taxes	78,139	-	78,139	-
Franchise fees	88,177	-	88,177	-
Grants and contributions not restricted to specific programs	737,328	-	737,328	-
Unrestricted investment earnings	25,778	11,537	37,315	1,294
Other	122,046	32	122,078	-
Total general revenues	4,853,402	11,569	4,864,971	114,625
Changes in net position	792,013	(129,120)	662,893	(49,995)
Net position, beginning of year, restated	8,084,381	16,038,942	24,123,323	191,645
Net position, end of year	\$ 8,876,394	\$ 15,909,822	\$ 24,786,216	\$ 141,650

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

# CITY OF LUDINGTON

## GOVERNMENTAL FUNDS

### BALANCE SHEET

December 31, 2015

	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
<b>Assets:</b>			
Cash and investments	\$ 1,296,627	\$ 939,609	\$ 2,236,236
Taxes receivable	3,924,167	-	3,924,167
Accounts receivable	93,755	61	93,816
Special assessments receivable	2,236	-	2,236
Notes receivable	-	5,207	5,207
Accrued interest receivable	377	227	604
Due from other governments	130,699	185,024	315,723
Due from other funds	11,999	-	11,999
Inventory	22,905	70,617	93,522
Prepaid expenditures	100,127	7,568	107,695
Total assets	<u>\$ 5,582,892</u>	<u>\$ 1,208,313</u>	<u>\$ 6,791,205</u>
<b>Liabilities:</b>			
Accounts payable	\$ 114,029	\$ 15,461	\$ 129,490
Accrued expenses	44,352	10,022	54,374
Due to other governments	500	3,486	3,986
Deposits payable	2,426	-	2,426
Unearned revenue	11,211	51,020	62,231
Total liabilities	<u>172,518</u>	<u>79,989</u>	<u>252,507</u>
<b>Deferred inflows of resources:</b>			
Property taxes levied in advance	3,924,167	-	3,924,167
Unavailable revenue - state grant	-	45,745	45,745
Total deferred inflows of resources	<u>3,924,167</u>	<u>45,745</u>	<u>3,969,912</u>
<b>Fund balances:</b>			
Nonspendable	123,032	83,392	206,424
Restricted	-	640,733	640,733
Committed	-	358,454	358,454
Unassigned	1,363,175	-	1,363,175
Total fund balances	<u>1,486,207</u>	<u>1,082,579</u>	<u>2,568,786</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 5,582,892</u>	<u>\$ 1,208,313</u>	<u>\$ 6,791,205</u>

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

# CITY OF LUDINGTON

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

December 31, 2015

<b>Fund balances of governmental funds</b>	\$ 2,568,786
Net position reported for governmental activities in the statement of net position is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	
Capital assets not being depreciated	258,030
Capital assets being depreciated, net	9,981,259
Bond issuance costs are recorded as expenditures in the governmental funds but are deferred in the statement of net position and amortized over the life of the bond.	24,063
Interest payable in the governmental activities is not payable from current financial resources and therefore is not reported in the governmental funds.	(16,714)
Long-term liabilities are not due and payable in the current year and therefore are not reported in the governmental funds.	
Bonds and contracts payable	(1,085,523)
Compensated absences payable	(89,438)
Net OPEB obligation	(175,738)
Net pension liability and related deferred outflows and inflows of resources	(5,485,087)
Deferred inflows of resources reported in the governmental funds for unavailabe revenue are recognized as revenue in the statement of activities.	45,745
A portion of the net position (including capital assets of \$2,675,822) and liabilities of the internal service funds are included in the governmental activities in the statement of net position net (\$311,208) allocation to business-type activities.	<u>2,851,011</u>
<b>Net position of governmental activities</b>	<u>\$ 8,876,394</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, 2015

	<i>General Fund</i>	<i>Nonmajor Funds</i>	<i>Total</i>
<b>Revenues:</b>			
Property taxes	\$ 3,895,977	\$ -	\$ 3,895,977
Licenses and permits	107,753	-	107,753
Federal grants	5,205	10,959	16,164
State grants	751,895	791,489	1,543,384
Contributions from other units	81,757	197,196	278,953
Charges for services	541,605	53,059	594,664
Fines and forfeits	29,855	-	29,855
Interest and rents	23,872	6,216	30,088
Other revenue	384,347	90,572	474,919
	<u>5,822,266</u>	<u>1,149,491</u>	<u>6,971,757</u>
<b>Total revenues</b>			
<b>Expenditures:</b>			
Current			
General government	1,499,831	-	1,499,831
Public safety	1,692,918	-	1,692,918
Public works	1,354,303	591,397	1,945,700
Health and welfare	-	168,263	168,263
Community and economic development	89,778	300	90,078
Recreation and culture	461,955	206,495	668,450
Other	37,337	-	37,337
Capital outlay	172,402	146,526	318,928
Debt service			
Principal	17,092	225,000	242,092
Interest and fees	-	49,115	49,115
	<u>5,325,616</u>	<u>1,387,096</u>	<u>6,712,712</u>
<b>Total expenditures</b>			
Excess (deficiency) of revenues over expenditures	496,650	(237,605)	259,045
<b>Other financing sources (uses):</b>			
Transfers from (to) other funds	(501,582)	501,582	-
Changes in fund balances	(4,932)	263,977	259,045
Fund balances, beginning of year	1,491,139	818,602	2,309,741
Fund balances, end of year	<u>\$ 1,486,207</u>	<u>\$ 1,082,579</u>	<u>\$ 2,568,786</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, 2015

<b>Changes in fund balances of governmental funds</b>	\$ 259,045
Change in net position reported for governmental activities in the statement of activities is different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense.	
Purchases of capital assets	122,860
Contributed capital assets	1,135,601
Depreciation expense	(431,216)
Bond issuance costs are recorded as expenditures in the governmental funds but are deferred in the statement of net position and amortized over the life of the bond.	(11,323)
Payments of principal on long-term obligations are expenditures in the governmental but the payments reduce long-term liabilities in the statement of net position.	242,092
Deferred inflows of resources reported in the governmental funds for unavailable revenue are recognized as revenue in the statement of activities.	45,745
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 accrued interest on bonds	3,751
Change in compensated absences payable	217
Change in net OPEB obligation	(22,326)
Change in net pension liability and related deferred outflow of resources	(518,388)
Certain changes in net position of internal service funds are reported with governmental activities in the statement of activities net (\$8,076) allocation to business-type of activities.	<u>(34,045)</u>
<b>Change in net position of governmental activities</b>	<u><u>\$ 792,013</u></u>

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

# CITY OF LUDINGTON

## PROPRIETARY FUNDS

### STATEMENT OF NET POSITION

December 31, 2015

	<i>Enterprise Funds</i>					<i>Internal Service Funds</i>
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Marina Fund</i>	<i>Nonmajor Cartier Park Campground Fund</i>	<i>Total</i>	
<b>Assets:</b>						
<b>Current assets:</b>						
Cash and investments	\$ 515,177	\$ (46,235)	\$ 478,264	\$ 146,969	\$ 1,094,175	\$ 187,007
Accounts receivable	394,360	456,907	74	-	851,341	7,471
Accrued interest receivable	307	132	138	42	619	54
Due from other governments	-	-	-	-	-	780
Inventory	44,774	136,920	21,653	-	203,347	58,379
Prepaid expenses	27,615	34,959	7,500	1,667	71,741	43,746
Total current assets	<u>982,233</u>	<u>582,683</u>	<u>507,629</u>	<u>148,678</u>	<u>2,221,223</u>	<u>297,437</u>
<b>Noncurrent assets:</b>						
Restricted cash and investments	547,004	503,073	-	-	1,050,077	-
Capital assets not being depreciated	72,415	17,018	791,393	-	880,826	4,250
Capital assets being depreciated, net	<u>8,073,055</u>	<u>6,147,136</u>	<u>1,523,970</u>	<u>213,455</u>	<u>15,957,616</u>	<u>2,671,572</u>
Total noncurrent assets	<u>8,692,474</u>	<u>6,667,227</u>	<u>2,315,363</u>	<u>213,455</u>	<u>17,888,519</u>	<u>2,675,822</u>
Total assets	<u>9,674,707</u>	<u>7,249,910</u>	<u>2,822,992</u>	<u>362,133</u>	<u>20,109,742</u>	<u>2,973,259</u>
<b>Deferred outflows of resources:</b>						
Pension	<u>149,734</u>	<u>231,668</u>	<u>8,499</u>	<u>191</u>	<u>390,092</u>	<u>53,572</u>
<b>Liabilities:</b>						
<b>Current liabilities:</b>						
Accounts payable	76,769	57,012	9,485	996	144,262	55,538
Accrued expenses	7,972	12,577	1,121	762	22,432	4,099
Due to other funds	-	-	-	-	-	11,999
Deposits payable	-	7,250	-	-	7,250	-
Unearned revenue	-	-	93,695	-	93,695	-
Current long-term debt	<u>75,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>75,000</u>	<u>-</u>
Total current liabilities	<u>159,741</u>	<u>76,839</u>	<u>104,301</u>	<u>1,758</u>	<u>342,639</u>	<u>71,636</u>

continued

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

# CITY OF LUDINGTON

## PROPRIETARY FUNDS

### STATEMENT OF NET POSITION, CONTINUED

December 31, 2015

	<i>Enterprise Funds</i>					<i>Internal Service Funds</i>
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Marina Fund</i>	<i>Nonmajor Cartier Park Campground Fund</i>	<i>Total</i>	
<b>Noncurrent liabilities:</b>						
Long-term debt	885,000	-	-	-	885,000	-
Compensated absences payable	16,935	26,195	4,392	119	47,641	5,347
Net pension liability	1,146,080	1,773,209	65,052	1,462	2,985,803	410,045
Net OPEB obligation	5,911	10,552	1,258	-	17,721	-
Total noncurrent liabilities	<u>2,053,926</u>	<u>1,809,956</u>	<u>70,702</u>	<u>1,581</u>	<u>3,936,165</u>	<u>415,392</u>
Total liabilities	<u>2,213,667</u>	<u>1,886,795</u>	<u>175,003</u>	<u>3,339</u>	<u>4,278,804</u>	<u>487,028</u>
<b>Net position:</b>						
Net investment in capital assets	7,185,470	6,164,154	2,315,363	213,455	15,878,442	2,675,822
Restricted for:						
Debt service	240,000	-	-	-	240,000	-
Equipment replacement	307,004	503,073	-	-	810,077	-
Unrestricted	<u>(121,700)</u>	<u>(1,072,444)</u>	<u>341,125</u>	<u>145,530</u>	<u>(707,489)</u>	<u>(136,019)</u>
Total net position	<u>\$ 7,610,774</u>	<u>\$ 5,594,783</u>	<u>\$ 2,656,488</u>	<u>\$ 358,985</u>	<u>\$ 16,221,030</u>	<u>\$ 2,539,803</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.					<u>(311,208)</u>	
Net position of business-type activities					<u>\$ 15,909,822</u>	

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

# CITY OF LUDINGTON

## PROPRIETARY FUNDS

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

Year Ended December 31, 2015

	<i>Enterprise Funds</i>					
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Marina Fund</i>	<i>Nonmajor Cartier Park Campground Fund</i>	<i>Total</i>	<i>Internal Service Funds</i>
<b>Operating revenues:</b>						
Charges for services	\$ 1,424,814	\$ 1,612,954	\$ 727,798	\$ 203,518	\$ 3,969,084	\$ -
Equipment rental	-	-	-	-	-	936,654
Other	8,602	18,303	1,669	15,544	44,118	125,278
Total operating revenues	1,433,416	1,631,257	729,467	219,062	4,013,202	1,061,932
<b>Operating expenses:</b>						
Personal services	574,203	982,075	155,506	101,165	1,812,949	326,134
Contracted services	91,606	75,060	72,556	10,585	249,807	64,570
Administrative expense	78,800	78,800	45,800	39,100	242,500	59,000
Insurance	28,003	28,003	7,779	-	63,785	54,450
Utilities	229,016	158,187	24,939	17,558	429,700	33,196
Repairs and maintenance	18,874	50,629	10,050	4,130	83,683	78,282
Other services and expenses	178,502	170,940	393,918	25,859	769,219	256,160
Depreciation	235,201	239,597	104,030	5,121	583,949	233,178
Total operating expenses	1,434,205	1,783,291	814,578	203,518	4,235,592	1,104,970
Operating income (loss)	(789)	(152,034)	(85,111)	15,544	(222,390)	(43,038)
<b>Non-operating revenues (expenses):</b>						
Interest income	4,742	3,065	2,729	1,001	11,537	917
Rental income	-	106,515	-	-	106,515	-
Other income - Scrap sales	32	-	-	-	32	-
Interest expense	(16,738)	-	-	-	(16,738)	-
Net non-operating	(11,964)	109,580	2,729	1,001	101,346	917

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 FUND NET POSITION, CONTINUED

Year Ended December 31, 2015

	<i>Enterprise Funds</i>					
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Marina Fund</i>	<i>Nonmajor Cartier Park Campground Fund</i>	<i>Total</i>	<i>Internal Service Funds</i>
Changes in net position	(12,753)	(42,454)	(82,382)	16,545	(121,044)	(42,121)
Net position, beginning of year, restated	<u>7,623,527</u>	<u>5,637,237</u>	<u>2,738,870</u>	<u>342,440</u>		<u>2,581,924</u>
Net position, end of year	<u>\$ 7,610,774</u>	<u>\$ 5,594,783</u>	<u>\$ 2,656,488</u>	<u>\$ 358,985</u>		<u>\$ 2,539,803</u>
Adjustment to reflect the consolidation of internal service fund activities to enterprise funds.					<u>(8,076)</u>	
Changes in net position of business-type activities					<u>\$ (129,120)</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, 2015

	<i>Enterprise Funds</i>					<i>Internal Service Funds</i>
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Marina Fund</i>	<i>Nonmajor Cartier Park Campground Fund</i>	<i>Total</i>	
<b>Cash flows from operating activities:</b>						
Cash received from customers	\$ 1,347,520	\$ 1,466,181	\$ 715,662	\$ 219,062	\$ 3,748,425	\$ 132,893
Cash received from interfund services	-	-	-	-	-	937,288
Cash payments to employees and on behalf of employees	(511,843)	(887,556)	(153,188)	(101,085)	(1,653,672)	(305,303)
Cash payments to suppliers for goods and services	(568,137)	(494,875)	(547,742)	(97,243)	(1,707,997)	(492,199)
Net cash provided by operating activities	<u>267,540</u>	<u>83,750</u>	<u>14,732</u>	<u>20,734</u>	<u>386,756</u>	<u>272,679</u>
<b>Cash flows from non-capital financing activities:</b>						
Other income - scrap sales	<u>32</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>32</u>	<u>-</u>
<b>Cash flows from capital and related financing activities:</b>						
Acquisition and construction of capital assets	(147,456)	(416,755)	(7,840)	(64,864)	(636,915)	(167,584)
Principal payments	(70,000)	-	-	-	(70,000)	-
Interest paid	(16,738)	-	-	-	(16,738)	-
Net cash used by capital and related financing activities	<u>(234,194)</u>	<u>(416,755)</u>	<u>(7,840)</u>	<u>(64,864)</u>	<u>(723,653)</u>	<u>(167,584)</u>
<b>Cash flows from investing activities:</b>						
Interest received	5,267	3,486	2,972	1,114	12,839	929
Rent received	<u>-</u>	<u>106,515</u>	<u>-</u>	<u>-</u>	<u>106,515</u>	<u>-</u>
Net cash provided by investing activities	<u>5,267</u>	<u>110,001</u>	<u>2,972</u>	<u>1,114</u>	<u>119,354</u>	<u>929</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, 2015

	<i>Enterprise Funds</i>					<i>Internal Service Funds</i>
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Marina Fund</i>	<i>Nonmajor Park Campground Fund</i>	<i>Total</i>	
Net increase (decrease) in cash and investments	38,645	(223,004)	9,864	(43,016)	(217,511)	106,024
Cash and investments, beginning of year	<u>1,023,536</u>	<u>679,842</u>	<u>468,400</u>	<u>189,985</u>	<u>2,361,763</u>	<u>80,983</u>
Cash and investments, end of year	<u>\$ 1,062,181</u>	<u>\$ 456,838</u>	<u>\$ 478,264</u>	<u>\$ 146,969</u>	<u>\$ 2,144,252</u>	<u>\$ 187,007</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>						
Operating income (loss)	\$ (789)	\$ (152,034)	\$ (85,111)	\$ 15,544	\$ (222,390)	\$ (43,038)
Adjustments:						
Depreciation	235,201	239,597	104,030	5,121	583,949	233,178
Change in assets and liabilities:						
Accounts receivable	(85,896)	(165,076)	(74)	-	(251,046)	7,552
Due from other governments	-	-	-	-	-	63
Inventory	640	2,096	4,330	-	7,066	14,353
Prepaid expenses	13,812	35,915	5,163	1,115	56,005	14,030
Accounts payable	40,570	23,839	(2,501)	(1,335)	60,573	25,076
Accrued expenses	1,642	2,544	308	209	4,703	879
Due to other funds	-	-	-	-	-	634
Deposits payable	-	2,350	-	-	2,350	-
Unearned revenue	-	-	(13,731)	-	(13,731)	-
Compensated absences payable	880	(562)	(1,146)	1	(827)	(2,121)
Net pension liability and related deferred outflows	61,695	95,454	3,502	79	160,730	22,073
Net OPEB obligation	<u>(215)</u>	<u>(373)</u>	<u>(38)</u>	<u>-</u>	<u>(626)</u>	<u>-</u>
Net cash provided by operating activities	<u>\$ 267,540</u>	<u>\$ 83,750</u>	<u>\$ 14,732</u>	<u>\$ 20,734</u>	<u>\$ 386,756</u>	<u>\$ 272,679</u>

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

# CITY OF LUDINGTON

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## FIDUCIARY FUNDS

### STATEMENT OF FIDUCIARY NET POSITION

December 31, 2015

	<i>Police Pension Trust Fund</i>	<i>Police Greenwood Fund</i>	<i>Agency Funds</i>
<b>Assets:</b>			
Cash and investments	\$ 4,824,461	\$ 63,538	\$ 4,387,347
Taxes receivable	311,761	-	-
Accrued interest receivable	18	-	-
Due from other governmental units	-	-	2,500
Total assets	<u>5,136,240</u>	<u>63,538</u>	<u>\$ 4,389,847</u>
<b>Liabilities:</b>			
Accounts payable	3,606	-	\$ 40,271
Undistributed tax collections	-	-	4,349,576
Total liabilities	<u>3,606</u>	<u>-</u>	<u>\$ 4,389,847</u>
<b>Deferred inflows of resources:</b>			
Property taxes levied in advance	<u>311,761</u>	<u>-</u>	
<b>Net position:</b>			
Restricted	-	63,538	
Held in trust for pension benefits	<u>4,820,873</u>	<u>-</u>	
Total net position	<u>\$ 4,820,873</u>	<u>\$ 63,538</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 FIDUCIARY NET POSITION

Year Ended December 31, 2015

	<i>Police Pension Trust Fund</i>	<i>Police Greenwood Fund</i>
<b>Additions:</b>		
Property taxes	\$ 306,876	\$ -
Employee contributions	53,042	-
Investment income (loss)	<u>(3,626)</u>	<u>198</u>
Total additions	<u>356,292</u>	<u>198</u>
<b>Deductions:</b>		
Benefit payments	373,903	6,050
Fees and other	<u>66,767</u>	<u>-</u>
Total deductions	<u>440,670</u>	<u>6,050</u>
Net increase (decrease)	(84,378)	(5,852)
Net position, beginning of year, restated	<u>4,905,251</u>	<u>69,390</u>
Net position, end of year	<u>\$ 4,820,873</u>	<u>\$ 63,538</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, 2015

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### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### **Reporting Entity:**

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

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

#### **Blended Component Unit:**

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

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

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

#### **Joint Venture:**

**Western Mason County Fire District Authority** – The Western Mason County Fire District Authority, was formed by Pere Marquette Charter Township, Hamlin Township and the City of Ludington, on May 20, 1996 to aid in providing fire vehicles and equipment for each municipality's fire departments. The Authority is governed by a 6 member Board composed of the Supervisor or City Manager and the Fire Chief of each participating municipality. Complete financial statements for the Authority can be obtained from Pere Marquette Township at 1699 South Pere Marquette Highway, Ludington, Michigan. There is no stated equity interest in the Fire District Authority agreement and therefore, in accordance with generally accepted accounting principles, no equity interest is recorded in these financial statements.

#### **Accounting and Reporting Principles:**

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

# CITY OF LUDINGTON

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## NOTES TO FINANCIAL STATEMENTS

December 31, 2015

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### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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#### **Report Presentation:**

Governmental accounting principles require that financial reports include two different perspectives - the government-wide perspective and the fund-based perspective. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. The government-wide financial statements are presented on the economic resources measurement focus and the full accrual basis of accounting. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The statements also present a schedule reconciling these amounts to the modified accrual-based presentation found in the fund-based statements.

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

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

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

#### **Fund Accounting:**

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

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

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

**Fiduciary funds** are used to account for the resources held in a fiduciary capacity. Fiduciary funds are not reflected in the government-wide financial statements because the resources of the funds are not available to support the City's own programs.

The City reports the following major governmental funds:

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

# CITY OF LUDINGTON

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## NOTES TO FINANCIAL STATEMENTS

December 31, 2015

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### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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The City reports the following major proprietary funds:

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

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

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

Additionally, the City reports the following fund types:

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

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

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

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

#### **Basis of Accounting:**

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

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

**CITY OF LUDINGTON**

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**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2015

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

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**Specific Balances and Transactions:**

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

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

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

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

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

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

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

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

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

# CITY OF LUDINGTON

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## NOTES TO FINANCIAL STATEMENTS

December 31, 2015

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### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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

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

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

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

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

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

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

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

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

# CITY OF LUDINGTON

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## NOTES TO FINANCIAL STATEMENTS

December 31, 2015

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### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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

Revenues for 2015 include property taxes levied in 2014 but appropriated by a City ordinance to finance 2015 operations. Property taxes levied in 2015 for the operations of 2016 are a lien against properties and are an asset of the City. They are recorded as taxes receivable and a deferred inflow of resources at December 31, 2015. In 2014, the City levied property taxes on an assessed property tax value of \$274,178,922 (exclusive of any Michigan Tax Tribunal or Board of Review adjustments). Taxes levied consisted of 11.5675 mills for the City's operating purposes, 2.7762 mills for refuse services, and 1.1501 mills for police pension. The DDA levied property taxes on an assessed property tax value of \$27,279,385 (exclusive of any Michigan Tax Tribunal or Board of Review adjustments). Taxes levied consisted of 1.6080 mills.

**Pension Costs** – The City provides pension benefits to employees and retirees in a defined benefit plan. For the defined benefit plan, the City receives an actuarial valuation to compute the annual required contribution (ARC) necessary to fund the pension obligation over the remaining amortization period. In the governmental funds, pension costs are recognized as contributions are made. For the government-wide statements and proprietary funds, the City reports, in accordance with GASB 68, the full accrual cost of the pension benefit for the period.

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

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

**Proprietary Funds Operating Classification** – Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services.

# CITY OF LUDINGTON

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## NOTES TO FINANCIAL STATEMENTS

December 31, 2015

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### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

#### **Use of Estimates:**

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

#### **Interfund Activity:**

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

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

#### **Adoption of New Accounting Standard:**

During the current year, the City adopted Government Accounting Standards Board Statement 68, *Accounting and Financial Reporting for Pensions*. Statement 68 requires governments participating in public employee defined benefit pension plans to recognize, in the government-wide and proprietary statements, their long-term liability for the pension benefits and the annual costs of providing these benefits.

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

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#### **Budgetary Information:**

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

# CITY OF LUDINGTON

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## NOTES TO FINANCIAL STATEMENTS

December 31, 2015

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

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

#### Excess of Expenditures over Appropriations in Budgeted Funds:

During the year, the City did not incur any significant 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, 2015		\$	-
Current year building permit revenue			19,576
Related expenses:			
Direct costs	10,925		
Indirect costs	28,212		39,137
			<u>          </u>
Cumulative surplus at December 31, 2015		\$	<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.

# CITY OF LUDINGTON

## NOTES TO FINANCIAL STATEMENTS

December 31, 2015

### NOTE 3: DEPOSITS AND INVESTMENTS, CONTINUED

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

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

#### Custodial Credit Risk of Bank Deposits:

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a written deposit policy for custodial credit risk. At year end, the City had \$8,998,842 of bank deposits (certificates of deposit, checking, and savings accounts), of which \$1,276,170 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

#### Interest Rate Risk:

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

<u>Primary Government Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
U.S. Treasury notes	\$ 200,626	2.75 years

#### Credit Risk:

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

<u>Primary Government Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
U.S. Treasury notes	\$ 200,626	Aaa	Moody's
Bond mutual funds	21,732	Not Rated	N/A
<u>Fiduciary Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Money market	\$ 393,099	Not Rated	N/A
Corporate stocks	2,839,840	Morningstar	3-5
Corporate bonds	1,574,631	Morningstar	3-5

# CITY OF LUDINGTON

## NOTES TO FINANCIAL STATEMENTS

December 31, 2015

### 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, 2015 the City had these accounts established and had restricted cash as follows:

	<i>Restricted Cash and Investments</i>
<b>Sewer Fund:</b>	
Bond reserve	\$ 240,000
Equipment Replacement	307,004
<b>Water Fund:</b>	
Equipment Replacement	<u>503,073</u>
	<u>\$ 1,050,077</u>

### NOTE 5: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2015 was as follows:

	<i>January 1, 2015</i>	<i>Additions</i>	<i>Retirements</i>	<i>December 31, 2015</i>
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 262,280	\$ -	\$ -	\$ 262,280
Capital assets being depreciated:				
Buildings and improvements	5,705,881	1,073,268	(16,000)	6,763,149
Furniture and equipment	144,617	17,957	(50,315)	112,259
Infrastructure	6,679,946	131,510	(274)	6,811,182
Land and site improvements	840,887	53,683	(123,760)	770,810
Machinery and equipment	<u>2,574,220</u>	<u>149,627</u>	<u>(79,669)</u>	<u>2,644,178</u>
Total capital assets being depreciated	<u>15,945,551</u>	<u>1,426,045</u>	<u>(270,018)</u>	<u>17,101,578</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,312,249)	(116,018)	16,000	(1,412,267)
Furniture and equipment	(78,453)	(18,496)	50,315	(46,634)
Infrastructure	(799,443)	(269,613)	274	(1,068,782)
Land and site improvements	(335,653)	(26,379)	123,760	(238,272)
Machinery and equipment	<u>(1,528,573)</u>	<u>(233,888)</u>	<u>79,669</u>	<u>(1,682,792)</u>
Total accumulated depreciation	<u>(4,054,371)</u>	<u>(664,394)</u>	<u>270,018</u>	<u>(4,448,747)</u>
Capital assets being depreciated, net	<u>11,891,180</u>	<u>761,651</u>	<u>-</u>	<u>12,652,831</u>
Governmental activities, capital assets, net	<u>\$ 12,153,460</u>	<u>\$ 761,651</u>	<u>\$ -</u>	<u>\$ 12,915,111</u>

# CITY OF LUDINGTON

## NOTES TO FINANCIAL STATEMENTS

December 31, 2015

### NOTE 5: CAPITAL ASSETS, CONTINUED

	<i>January 1, 2015</i>	<i>Additions</i>	<i>Retirements</i>	<i>December 31, 2015</i>
<b>Business-type activities:</b>				
Capital assets not being depreciated:				
Land	\$ 880,826	\$ -	\$ -	\$ 880,826
Capital assets being depreciated:				
Buildings and improvements	1,528,083	264,241	-	1,792,324
Furniture and equipment	109,289		(2,058)	107,231
Infrastructure	74,154		-	74,154
Land improvements	1,723,414	-	(30,319)	1,693,095
Machinery and equipment	654,750	23,467	(20,313)	657,904
Sewer systems and plants	12,677,156	142,357	-	12,819,513
Water systems and plants	9,460,961	206,850	-	9,667,811
Total capital assets being depreciated	<u>26,227,807</u>	<u>636,915</u>	<u>(52,690)</u>	<u>26,812,032</u>
Less accumulated depreciation for:				
Buildings and improvements	(879,275)	(127,411)	-	(1,006,686)
Furniture and equipment	(78,814)	(11,054)	2,058	(87,810)
Infrastructure	(12,720)	(66,618)	-	(79,338)
Land improvements	(654,786)	(79,538)	30,319	(704,005)
Machinery and equipment	(521,136)	(35,674)	20,313	(536,497)
Sewer systems and plants	(4,554,790)	(163,859)	-	(4,718,649)
Water systems and plants	<u>(3,621,636)</u>	<u>(99,795)</u>	<u>-</u>	<u>(3,721,431)</u>
Total accumulated depreciation	<u>(10,323,157)</u>	<u>(583,949)</u>	<u>52,690</u>	<u>(10,854,416)</u>
Capital assets being depreciated, net	<u>15,904,650</u>	<u>52,966</u>	<u>-</u>	<u>15,957,616</u>
Business-type activities, capital assets, net	<u>\$ 16,785,476</u>	<u>\$ 52,966</u>	<u>\$ -</u>	<u>\$ 16,838,442</u>
<b>Component unit:</b>				
Capital assets being depreciated:				
Buildings and improvements	\$ -	\$ 7,666	\$ -	\$ 7,666
Land improvements	10,672	-	-	10,672
Machinery and equipment	28,815	-	(24,115)	4,700
Total capital assets being depreciated	<u>39,487</u>	<u>7,666</u>	<u>(24,115)</u>	<u>23,038</u>
Less accumulated depreciation for:				
Buildings and improvements	-	(204)	-	(204)
Land improvements	(551)	(214)	-	(765)
Machinery and equipment	<u>(26,700)</u>	<u>(470)</u>	<u>24,115</u>	<u>(3,055)</u>
Total accumulated depreciation	<u>(27,251)</u>	<u>(888)</u>	<u>24,115</u>	<u>(4,024)</u>
Component unit, capital assets, net	<u>\$ 12,236</u>	<u>\$ 6,778</u>	<u>\$ -</u>	<u>\$ 19,014</u>

# CITY OF LUDINGTON

## NOTES TO FINANCIAL STATEMENTS

December 31, 2015

### NOTE 5: CAPITAL ASSETS, CONTINUED

Depreciation expense was charged to functions as follows:

	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Component Unit</i>
General government	\$ 80,038	\$ -	\$ -
Public safety	25,503	-	-
Public works	250,623	-	-
Health and welfare	2,756	-	-
Community and economic development	-	-	888
Recreation and culture	72,296	-	-
Internal service funds	233,178	-	-
Sewer	-	235,201	-
Water	-	239,597	-
Marina	-	104,030	-
Cartier Park Campground	-	5,121	-
	<u>\$ 664,394</u>	<u>\$ 583,949</u>	<u>\$ 888</u>

### NOTE 6: LONG-TERM LIABILITIES

The City may issue bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds and contract financing are direct obligations and pledge the full faith and credit of the City. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service. Long-term obligation activity for the year ended December 31, 2015 is summarized as follows:

	<i>January 1, 2015 Restated</i>	<i>Additions</i>	<i>Reductions</i>	<i>December 31, 2015</i>	<i>Due Within One Year</i>
<b>Governmental Activities:</b>					
<i>Bonds and notes payable:</i>					
2005 Building Authority Refunding					
Bonds for \$2,135,000, with annual payments ranging from \$240,000-285,000 at 3.70-4.00% interest;					
Maturing through August 1, 2019	\$1,265,000	\$ -	\$ (225,000)	\$ 1,040,000	\$ 240,000
2013 Copier/Printer Contract Payable for \$89,160, with monthly payments of \$1,486 at 0.00% interest;					
Maturing June 2018	62,615	-	(17,092)	45,523	17,832
<i>Other liabilities:</i>					
Compensated absences	97,123	-	(2,338)	94,785	-
Net OPEB obligation	153,412	31,795	(9,469)	175,738	-
Net pension liability-General (MERS)	3,525,806	1,149,821	(352,241)	4,323,386	-
Net pension liability-Police (Trust)	1,775,293	2,030,143	(319,919)	3,485,517	-
Total governmental activities	<u>\$6,879,249</u>	<u>\$ 3,211,759</u>	<u>\$ (926,059)</u>	<u>\$ 9,164,949</u>	<u>\$ 257,832</u>

# CITY OF LUDINGTON

## NOTES TO FINANCIAL STATEMENTS

December 31, 2015

### NOTE 6: LONG-TERM LIABILITIES, CONTINUED

	<i>January 1, 2015</i>				<i>December 31, 2015</i>	<i>Due Within One Year</i>
	<u><i>Restated</i></u>	<u><i>Additions</i></u>	<u><i>Reductions</i></u>			
<b>Business-type activities:</b>						
<i>Bonds payable:</i>						
2007 Sewage Disposal System						
Junior Lien Revenue Bonds for						
\$1,500,000, with annual payments						
ranging from \$75,000-85,000 at						
1.625% interest; Maturing						
through October 1, 2027						
	\$1,030,000	\$ -	\$ (70,000)		\$ 960,000	\$ 75,000
<i>Other liabilities:</i>						
Compensated absences	48,468	882	(1,709)		47,641	-
Net OPEB obligation	18,347	734	(1,360)		17,721	-
Net pension liability-General (MERS)	2,434,981	794,086	(243,264)		2,985,803	-
Total business-type activities	<u>\$3,531,796</u>	<u>\$ 795,702</u>	<u>\$ (316,333)</u>		<u>\$ 4,011,165</u>	<u>\$ 75,000</u>

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

<i>Year Ended</i>	<i>Governmental Activities</i>			<i>Business-type Activities</i>			
	<i>December 31,</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2016	\$	257,832	\$ 40,115	\$ 297,947	\$ 75,000	\$ 15,600	\$ 90,600
2017		267,832	31,235	299,067	75,000	14,382	89,382
2018		274,859	21,735	296,594	75,000	13,162	88,162
2019		285,000	11,400	296,400	75,000	11,944	86,944
2020		-	-	-	80,000	10,726	90,726
2021-2025		-	-	-	410,000	34,044	444,044
2026-2027		-	-	-	170,000	4,144	174,144
		<u>\$ 1,085,523</u>	<u>\$ 104,485</u>	<u>\$ 1,190,008</u>	<u>\$ 960,000</u>	<u>\$ 104,002</u>	<u>\$ 1,064,002</u>

# CITY OF LUDINGTON

## NOTES TO FINANCIAL STATEMENTS December 31, 2015

### NOTE 7: DISAGGREGATED RECEIVABLE AND PAYABLE BALANCES

Receivable and payable balances for the year ended December 31, 2015 were 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	\$ 3,924,167	\$ -	\$ 3,924,167	\$ 114,827
Accounts	101,287	851,341	952,628	8,050
Special assessments	2,290	-	2,290	-
Notes	5,207	-	5,207	-
Accrued interest	1,384	619	2,003	36
Intergovernmental	315,723	-	315,723	-
Total receivables	<u>\$ 4,350,058</u>	<u>\$ 851,960</u>	<u>\$ 5,202,018</u>	<u>\$ 122,913</u>
<b>Accounts payable and accrued expenses:</b>				
Accounts	\$ 185,028	\$ 144,262	\$ 329,290	\$ 11,582
Payroll liabilities	58,473	22,432	80,905	948
Deposits payable	2,426	7,250	9,676	-
Accrued interest	16,714	-	16,714	-
Intergovernmental	3,986	-	3,986	-
Total accounts payable and accrued expenses	<u>\$ 266,627</u>	<u>\$ 173,944</u>	<u>\$ 440,571</u>	<u>\$ 12,530</u>

### NOTE 8: INTERFUND TRANSFERS

The composition of interfund transfers at December 31, 2015 is as follows reported in the fund financial statements:

<i>Funds Transferred From</i>	<i>Funds Transferred To</i>	<i>Amount</i>
General Fund	Local Street Fund	\$ 186,700
General Fund	Recreation Fund	42,000
General Fund	Building Authority Bond Fund	274,114
Cemetery Capital Improvement Fund	General Fund	1,233
		<u>\$ 504,047</u>

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

# CITY OF LUDINGTON

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## NOTES TO FINANCIAL STATEMENTS

December 31, 2015

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### NOTE 9: 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 10: EMPLOYEE RETIREMENT BENEFIT COMMITMENTS – GENERAL

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

**Pensions** – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, if any, and pension expense, information about the fiduciary net position of the Municipal Employees Retirement System (MERS) of Michigan and additions to/deductions from MERS' fiduciary net position have been determined on the same basis as they are reported by MERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Plan Description** – The employer's defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The employer participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at [www.mersofmich.com](http://www.mersofmich.com).

**Benefits Provided** – The following are the benefits provided from the December 31, 2014 valuation.

	<b>Division 01 - General: Closed, linked to Division 02</b>	<b>Division 02 - General after 6/1/11: Open, linked to Division 01</b>
Benefit Multiplier:	2.50% Multiplier (80% max)	1.70% Multiplier (no max)
Normal Retirement Age:	60	60
Vesting:	10 years	10 years
Early Retirement (Unreduced):	55/15	55/15
Early Retirement (Reduced):	50/25	50/25
Final Average Compensation:	3 years	5 years
COLA for Future Retirees:	2.50% (Non-Compound)	2.50% (Non-Compound)
Employee Contributions:	0.00%	5.00%
Act 88:	No	No

# CITY OF LUDINGTON

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## NOTES TO FINANCIAL STATEMENTS

December 31, 2015

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### NOTE 10: EMPLOYEE RETIREMENT BENEFIT COMMITMENTS – GENERAL, CONTINUED

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

Inactive employees or beneficiaries currently receiving benefits:	61
Inactive employees entitled to but not yet receiving benefits:	4
Active employees:	<u>50</u>
Total	<u><u>115</u></u>

*Contributions* – The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees.

The employers' annual required contributions (ARC), for the current year, were 5.05% as a percentage of payroll or \$45,680 monthly based on valuation payroll. Amounts are based on the valuation payroll from the December 31, 2013 actuarial valuation.

*Net Pension Liability* – The employer's net pension liability was measured as of December 31, 2015. The total pension liability as of December 31, 2015 was calculated by the roll-forward method based on the December 31, 2014 actuarial valuation.

*Actuarial assumptions* – The total pension liability in the December 31, 2014 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement: Inflation: 3%-4%; Salary Increases: 4.5% in the long-term (1%, 2% and 3% for calendar years 2014, 2015 and 2016, respectively); Investment rate of return: 8.00%, net of investment expense, including inflation.

Although no specific price inflation assumptions are needed for the valuation, the 4.5% long-term wage inflation assumption would be consistent with a price inflation of 3%-4%. Mortality rates used were based on the 1994 Group Annuity Mortality Table of a 50% Male and 50% Female blend. For disabled retirees, the regular mortality table is used with a 10-year set forward in ages to reflect the higher expected mortality rates of disabled members.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study in 2008. (MERS Retirement Board is currently conducting an actuarial experience study covering the period from January 1, 2009, through December 31, 2013.)

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

# CITY OF LUDINGTON

## NOTES TO FINANCIAL STATEMENTS

December 31, 2015

### NOTE 10: EMPLOYEE RETIREMENT BENEFIT COMMITMENTS – GENERAL, CONTINUED

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	57.5%	5.02%
Global Fixed Income	20.0%	2.18%
Real Assets	12.5%	4.23%
Diversifying Strategies	10.0%	6.56%

**Discount rate** – The discount rate used to measure the total pension liability is 8.25%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Changes in net pension liability during the measurement year were as follows:*

	<i>Increase (Decrease)</i>		
	<i>Total Pension Liability</i>	<i>Plan Fiduciary Net Position</i>	<i>Net Pension Liability</i>
Balances at 12/31/14	\$ 18,495,374	\$ 12,534,587	\$ 5,960,787
Service cost	274,630	-	274,630
Interest on total pension liability	1,488,915	-	1,488,915
Changes in benefit terms	-	-	-
Difference between expected and actual experience	-	-	-
Changes in assumptions	-	-	-
Employer contributions	-	595,505	(595,505)
Employee contributions	-	18,451	(18,451)
Net investment income	-	(183,641)	183,641
Benefit payments, including employee refunds	(1,170,478)	(1,170,478)	-
Administrative expenses	-	(27,072)	27,072
Other changes	(11,900)	-	(11,900)
Net changes	581,167	(767,235)	1,348,402
Balances at 12/31/15	<u>\$ 19,076,541</u>	<u>\$ 11,767,352</u>	<u>\$ 7,309,189</u>

The General (MERS) net pension liability is recorded as follows:

Governmental activities	\$ 4,323,386
Business-type activities	<u>2,985,803</u>
	<u>\$ 7,309,189</u>

# CITY OF LUDINGTON

## NOTES TO FINANCIAL STATEMENTS

December 31, 2015

### NOTE 10: EMPLOYEE RETIREMENT BENEFIT COMMITMENTS – GENERAL, CONTINUED

***Sensitivity of the net pension liability to changes in the discount rate*** – The following presents the net pension liability of the employer, calculated using the discount rate of 8.25%, as well as what the employer’s net pension liability would be using a discount rate that is 1 percentage point lower (7.25%) or 1% higher (9.25%) than the current rate.

	<u>1% Decrease Rate 7.25%</u>	<u>Current Rate 8.25%</u>	<u>1% Increase Rate 9.25%</u>
Net pension liability	\$ 9,357,649	\$ 7,309,189	\$ 5,566,168

***Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*** – For the year ended December 31, 2015; the employer recognized pension expense of \$988,970. The employer reported deferred outflows and inflows of resources related to pensions are from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ 954,937	\$ -

The deferred outflows of resources are recorded as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Governmental activities	\$ 564,845	\$ -
Business-type activities	390,092	-
	<u>\$ 954,937</u>	<u>\$ -</u>

The above amount reported as deferred outflows or inflows of resources related to pensions, and attributable to the difference between projected and actual plan earnings, will be recognized in pension expense as follows:

<u>Year Ended</u>	<u>Amount</u>
2016	\$ 238,734
2017	238,734
2018	238,734
2019	238,735

***Pension Plan Fiduciary Net Position*** – Detailed information about the plan’s fiduciary net position is available in the separately issued financial report found at [www.mersofmichigan.com](http://www.mersofmichigan.com). The plan’s fiduciary net position has been determined on the same basis used by the plan. The plan uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments and refunds of employee contributions are recognized as expense when due and payable in accordance with the benefit terms.

# CITY OF LUDINGTON

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## NOTES TO FINANCIAL STATEMENTS

December 31, 2015

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### NOTE 11: EMPLOYEE RETIREMENT BENEFIT COMMITMENTS – POLICE

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#### Defined Benefit Pension Plan (City of Ludington Police Retirement System):

##### *Summary of Significant Accounting Policies:*

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

##### *Plan Description:*

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

*Plan membership* – At December 31, 2015, pension plan membership consisted of the following:

Retirees and beneficiaries	14
Active plan members	14
Total	<u>28</u>

*Benefits provided* – The City of Ludington Police Retirement System provides retirement, disability, and death benefits. All benefits vest after 10 years of credited service. Retirement benefits for members who retire after 25 years or more of service are calculated as 2.7 percent (2.5 percent if hired on or after January 1, 2015) of the member’s 3-year average final compensation (AFC) times the first 25 years of service plus 1% of AFC times years of service in excess of 25 years. Members of any age with 25 or more years of service are eligible to retire. All plan members are eligible for non-duty disability benefits after 5 or more years of service and for duty-related disability benefits upon hire. Duty disability benefits to age 55 are 50% of FAC and non-duty disability retirement benefits to age 55 are 1.5% of FAC. For both, at age 55 they are determined the same as retirement benefits. Duty death benefits are the same amount that was paid by workers’ compensation and non-duty death benefits are accrued straight life pension actuarially reduced

*Contributions* – The obligation to contribute to the system for the police employees was established by negotiations between the City Council and the police bargaining unit (union contract). The contract requires the employees to contribute to the plan at a rate of 6% of eligible payroll. The City is required to contribute based on a property tax levy of 1.1501 mills. For the year ended December 31, 2015, the City made contributions of \$306,786 and the police employees contributed \$53,042.

##### *Investments:*

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

# CITY OF LUDINGTON

## NOTES TO FINANCIAL STATEMENTS

December 31, 2015

### NOTE 11: EMPLOYEE RETIREMENT BENEFIT COMMITMENTS – POLICE, CONTINUED

The manager selects the specific allocation for each asset class based on market valuation opportunities and the risk/reward of each class. The following was the Board's adopted asset allocation policy as of December 31, 2015:

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

*Rate of Return* – For the year ended December 31, 2015, the recognized rate of investment return based on the smoothed market value was 6.73% (less than the assumed 7.00%).

#### *Net Pension Liability:*

The components of the net pension liability at December 31, 2015, were as follows:

Total pension liability	\$ 8,306,390
Plan fiduciary net position	<u>(4,820,873)</u>
Net pension liability	<u>\$ 3,485,517</u>
Plan fiduciary net position as a percentage percentage of the total pension liability	58.04%
Covered payroll	\$ 852,255
Net pension liability as a percentage of of covered payroll	409.0%

*Actuarial assumptions* – The total pension liability was determined based on the annual actuarial valuation as of December 31, 2015. The following actuarial assumptions were applied to compute the total pension liability:

Actuarial cost method	Entry age
Inflation	4.0%
Salary increases	7.0%-4.0% (includes inflation)
Cost of living adjustments	None

Mortality rates were based on the RP 2000 Combined Healthy Annuitant Mortality Table, projected to 2014.

*Discount rate* – The discount rate used to measure the total pension liability was 5.75%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made at the current contribution rate and that City Contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the 5.75% discount rate is the single rate of return that, when applied to all projected benefit payments, results in an actuarial present value of projected benefit payments equal to the total of the actuarial present values determined in conformity with GASB Statements 68.

# CITY OF LUDINGTON

## NOTES TO FINANCIAL STATEMENTS

December 31, 2015

### NOTE 11: EMPLOYEE RETIREMENT BENEFIT COMMITMENTS – POLICE, CONTINUED

*Sensitivity of the net pension liability to changes in the discount rate* – The following presents the City’s net pension liability, calculated using the discount rate of 5.75%, as well as what the City’s net pension liability would be if it were calculated using a discount rate that is 1% lower (4.75%) or 1% higher (6.75%) than the current rate:

	<u>1% Decrease Rate 4.75%</u>	<u>Current Rate 5.75%</u>	<u>1% Increase Rate 6.75%</u>
Net pension liability	\$ 4,583,838	\$ 3,485,517	\$ 2,573,543

*Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions* – For the year ended December 31, 2015; the employer recognized pension expense of \$614,602. The employer reported deferred outflows and inflows of resources related to pensions are from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences in experiences	\$ -	\$ 13,043
Differences in assumptions	1,151,507	-
Net difference between projected and actual earnings on pension plan investments	<u>264,034</u>	<u>-</u>
	<u>\$ 1,415,541</u>	<u>\$ 13,043</u>

The deferred outflows and inflows of resources are recorded as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Governmental activities	<u>\$ 1,415,541</u>	<u>\$ 13,043</u>

The above amount reported as deferred outflows or inflows of resources related to pensions, and attributable to the difference between projected and actual plan earnings, will be recognized in pension expense as follows:

<u>Year Ended</u>	<u>Amount</u>
2016	\$ 293,702
2017	293,702
2018	293,702
2019	293,702
2020	227,690

# CITY OF LUDINGTON

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## NOTES TO FINANCIAL STATEMENTS

December 31, 2015

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### NOTE 12: 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, if retired with 20 or more years of service, will receive \$100 to \$200 per month. The City Clerk and Treasurer, who retire with 25 or more years of service, will receive a maximum paid benefit of \$250 per month for life, and continues to the eligible surviving spouse.

**Funding Policy** – The City has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a “pay-as-you-go” basis). The City has made no contributions in advance. At the fund level, the expense is recognized by the City as the payments to the employees are made. During the year, this amounted to \$46,524.

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

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

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

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

# CITY OF LUDINGTON

## NOTES TO FINANCIAL STATEMENTS December 31, 2015

### NOTE 12: OTHER POSTEMPLOYMENT BENEFITS, CONTINUED

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

For the year ended December 31, 2015:

Annual required contribution (recommended)	\$ 71,492
Interest on the prior year's net OPEB obligation	6,871
Less adjustment to the annual required contribution	<u>(10,139)</u>
Annual OPEB cost	68,224
Amounts contributed:	
Payments of current premiums	(46,524)
Advance funding	<u>-</u>
Increase in net OPEB obligation	21,700
OPEB obligation, beginning of year	<u>171,759</u>
OPEB obligation, end of year	<u>\$ 193,459</u>

The OPEB obligation is recorded as follows:

Governmental activities	\$ 175,738
Business-type activities	<u>17,721</u>
Total	<u>\$ 193,459</u>

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

<u>Year</u> <u>Ending</u>	<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Annual</u> <u>OPEB</u> <u>Cost</u>	<u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>	<u>Net</u> <u>OPEB</u> <u>Obligation</u>
12/31/15	1/1/13	\$ 68,224	\$ 46,524	68%	\$ 193,459
12/31/14	1/1/13	65,902	45,649	69%	171,759
12/31/13	1/1/13	66,331	41,612	63%	151,506

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

# CITY OF LUDINGTON

## NOTES TO FINANCIAL STATEMENTS

December 31, 2015

### NOTE 13: FUND BALANCES

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

	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
<b>Fund balances:</b>			
Nonspendable:			
Inventory	\$ 22,905	\$ 70,617	\$ 93,522
Prepaid expenditures	100,127	7,568	107,695
Long-term receivables	-	5,207	5,207
Restricted for:			
Streets	-	586,795	586,795
Senior center activities	-	53,936	53,936
Debt service	-	2	2
Committed to:			
Recreation activities	-	58,284	58,284
Downtown building rehab	-	87,854	87,854
Cemetery capital improvements	-	212,316	212,316
Unassigned	<u>1,363,175</u>	<u>-</u>	<u>1,363,175</u>
Total fund balances	<u>\$ 1,486,207</u>	<u>\$ 1,082,579</u>	<u>\$ 2,568,786</u>

### NOTE 14: PRIOR PERIOD ADJUSTMENT

Change in Accounting Principle – As a result of implementing GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* in the current year, the City has restated the beginning net position in the government-wide and proprietary funds Statement of Net Position, effectively decreasing net position as of January 1, 2015. The decrease results from recognition of a net pension liability.

The effect of the above changes on beginning net position is as follows:

	<u>Enterprise Funds Statements</u>				
	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Marina Fund</u>	<u>Cartier Park Campground Fund</u>	<u>Internal Service Funds</u>
Net position, previously stated					
December 31, 2014	\$ 8,558,178	\$ 7,083,324	\$ 2,791,921	\$ 343,632	\$ 2,916,324
Recognize net pension liability of					
\$3,395,848	<u>(934,651)</u>	<u>(1,446,087)</u>	<u>(53,051)</u>	<u>(1,192)</u>	<u>(334,400)</u>
Net position, restated					
December 31, 2014	<u>\$ 7,623,527</u>	<u>\$ 5,637,237</u>	<u>\$ 2,738,870</u>	<u>\$ 342,440</u>	<u>\$ 2,581,924</u>

# CITY OF LUDINGTON

## NOTES TO FINANCIAL STATEMENTS December 31, 2015

### NOTE 14: PRIOR PERIOD ADJUSTMENT, CONTINUED

	<i>Government-wide Statements</i>	
	<i>Governmental Activities</i>	<i>Business-type Activities</i>
Net position, previously stated December 31, 2014	\$ 13,385,480	\$ 18,473,923
Recognize net pension liability of \$7,736,080	<u>(5,301,099)</u>	<u>(2,434,981)</u>
Net position, restated December 31, 2014	<u>\$ 8,084,381</u>	<u>\$ 16,038,942</u>

Correction of an Error – In a previous year, the City recorded a restricted contribution made from an outside source in the Fiduciary Fund - Police Pension Trust Fund. This restricted contribution should have been recorded in a separate Fiduciary Fund. As a result of correcting the recognition of this contribution the City has restated the beginning net position in the as follows:

	<i>Fiduciary Fund Statements</i>	
	<i>Police Pension Trust Fund</i>	<i>Police Greenwood Fund</i>
Net position, previously stated December 31, 2014	\$ 4,974,641	\$ -
Recognize restricted contribution in correct fund	<u>(69,390)</u>	<u>69,390</u>
Net position, restated December 31, 2014	<u>\$ 4,905,251</u>	<u>\$ 69,390</u>

***REQUIRED SUPPLEMENTARY INFORMATION***

# CITY OF LUDINGTON

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## SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS FUNDING PROGRESS

*Schedule of Other Postemployment Benefits Funding Progress:*

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

# CITY OF LUDINGTON

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## SCHEDULE OF CHANGES IN THE CITY'S GENERAL (MERS) NET PENSION LIABILITY AND RELATED RATIOS

	<u>2015</u>
Service cost	\$ 274,630
Interest on total pension liability	1,488,915
Benefit payments, including employee refunds	(1,170,478)
Other changes	<u>(11,900)</u>
<b>Net change in total pension liability</b>	581,167
<b>Total pension liability - beginning</b>	<u>18,495,374</u>
<b>Total pension liability - ending</b>	<u><u>\$ 19,076,541</u></u>
<b>Plan fiduciary net position</b>	
Contributions - employer	\$ 595,505
Contributions - employee	18,451
Net investment income	(183,641)
Benefit payments, including employee refunds	(1,170,478)
Administrative expenses	<u>(27,072)</u>
<b>Net change in plan fiduciary net position</b>	(767,235)
<b>Total plan fiduciary net position - beginning</b>	<u>12,534,587</u>
<b>Total plan fiduciary net position - ending</b>	<u><u>\$ 11,767,352</u></u>
<b>City's net pension liability</b>	\$ 7,309,189
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	61.68%
<b>Covered employee payroll</b>	\$ 2,156,320
<b>City's net pension liability as a percentage of covered payroll</b>	338.97%

# CITY OF LUDINGTON

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

	<u>2015</u>	<u>2014</u>
<b>Total pension liability</b>		
Service cost	\$ 191,449	\$ 176,256
Interest	442,143	403,626
Changes in benefit terms	-	-
Differences between expected and actual experience	(15,652)	343,823
Changes of assumptions	1,381,809	-
Benefit payments, including refunds of member contributions	<u>(373,903)</u>	<u>(340,646)</u>
<b>Net change in total pension liability</b>	1,625,846	583,059
<b>Total pension liability - beginning</b>	<u>6,680,544</u>	<u>6,097,485</u>
<b>Total pension liability - ending</b>	<u>\$ 8,306,390</u>	<u>\$ 6,680,544</u>
<b>Plan fiduciary net position</b>		
Contributions - employer	\$ 306,876	\$ 297,187
Contributions - member	53,042	55,438
Net investment income	(3,610)	353,818
Benefit payments, including refunds of member contributions	(373,903)	(334,946)
Administrative expense	<u>(66,783)</u>	<u>(60,213)</u>
<b>Net change in plan fiduciary net position</b>	(84,378)	311,284
<b>Plan fiduciary net position - beginning, restated</b>	<u>4,905,251</u>	<u>4,593,967</u>
<b>Plan fiduciary net position - ending</b>	<u>\$ 4,820,873</u>	<u>\$ 4,905,251</u>
<b>City's police net pension liability</b>	<u>\$ 3,485,517</u>	<u>\$ 1,775,293</u>
<b>Plan fiduciary net position as a percentage of total pension liability</b>	58.04%	74.46%
<b>Covered-employee payroll</b>	\$ 852,255	\$ 888,155
<b>City's police net pension liability as a percentage of covered-employee payroll</b>	409.0%	192.1%

# CITY OF LUDINGTON

## SCHEDULE OF CITY GENERAL (MERS) DEFINED BENEFIT PENSION CONTRIBUTIONS

Last 10 Fiscal Years

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Actuarially determined contribution	\$ 559,505	\$ 521,831	\$ 489,247	\$ 452,171	\$ 444,060
Contributions in relation to the actuarially determined contribution	<u>595,505</u>	<u>557,831</u>	<u>489,247</u>	<u>452,171</u>	<u>444,060</u>
Contribution (excess) deficiency	<u>\$ (36,000)</u>	<u>\$ (36,000)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 2,156,320	\$ 1,920,675	\$ 2,008,700	\$ 1,982,367	\$ 1,977,617
Actuarially determined contribution as a percentage of covered-employee payroll	25.95%	27.17%	24.36%	22.81%	22.45%
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Actuarially determined contribution	\$ 438,611	\$ 456,155	\$ 468,618	\$ 374,696	\$ 346,899
Contributions in relation to the actuarially determined contribution	<u>438,611</u>	<u>456,155</u>	<u>468,618</u>	<u>105,265</u>	<u>346,899</u>
Contribution (excess) deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 269,431</u>	<u>\$ -</u>
Covered-employee payroll	\$ 1,919,604	\$ 2,213,525	\$ 2,099,257	\$ 1,988,160	\$ 1,899,244
Actuarially determined contribution as a percentage of covered-employee payroll	22.85%	20.61%	22.32%	18.85%	18.27%

### Notes to Schedule

Valuation date

Actuarially determined contribution rates are calculated as of December 31, 12 months prior to the beginning of the fiscal year in which contributions are required.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, open and closed
Remaining amortization period	24 years
Asset valuation method	10-year smoothed market
Inflation	3-4%
Salary increases	4.50%
Investment rate of return	8.25%
Retirement age	Experience-based tables of rates that are specific to the type of eligibility condition
Mortality	50% Male - 50% Female blend of the 1994 Group Annual Mortality Table
Other information	None

# CITY OF LUDINGTON

## SCHEDULE OF CITY POLICE DEFINED BENEFIT PENSION CONTRIBUTIONS

Last 10 Fiscal Years

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Actuarially determined contribution	\$ 306,876	\$ 297,187	\$ 289,156	\$ 284,836	\$ 270,508
Contributions in relation to the actuarially determined contribution	<u>306,876</u>	<u>297,187</u>	<u>289,156</u>	<u>284,836</u>	<u>270,508</u>
Contribution excess (deficiency)	<u>\$ -</u>				
Covered-employee payroll	\$ 852,255	\$ 888,155	\$ 809,192	\$ 832,173	\$ 745,397
Actuarially determined contributions as a percentage of covered-employee payroll	36.01%	33.46%	35.73%	34.23%	36.29%
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Actuarially determined contribution	\$ 259,778	\$ 253,829	\$ 247,904	\$ 313,230	\$ 221,142
Contributions in relation to the actuarially determined contribution	<u>259,778</u>	<u>253,829</u>	<u>247,904</u>	<u>313,230</u>	<u>221,142</u>
Contribution excess (deficiency)	<u>\$ -</u>				
Covered-employee payroll	\$ 854,278	\$ 896,135	\$ 902,623	\$ 806,609	\$ 777,390
Actuarially determined contributions as a percentage of covered-employee payroll	30.41%	28.32%	27.46%	38.83%	28.45%

### Notes to Schedule

Valuation date:

Actuarially determined contribution rates are calculated as of December 31, the prior year to the end of the fiscal year in which contributions are reported. Covered employee payroll is as of December 31 of the current fiscal year.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, open
Remaining amortization period	15 years
Asset valuation method	5 years smoothed market
Inflation	4.00%
Salary increases	7.0%-4.0%, including inflation
Investment rate of return	7.0%, net of pension plan investment expense, including inflation
Mortality table	1971 Group Annuity Mortality projected to 2000, set back 6 years for females.

# CITY OF LUDINGTON

## GENERAL FUND

### BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2015

	<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	\$ 3,879,100	\$ 3,879,100	\$ 3,895,977	\$ 16,877
Licenses and permits	97,500	107,600	107,753	153
Federal grants	-	5,200	5,205	5
State grants	753,600	756,200	751,895	(4,305)
Contributions from other units	71,100	81,000	81,757	757
Charges for services	601,600	646,600	541,605	(104,995)
Fines and forfeits	31,500	31,500	29,855	(1,645)
Interest and rents	13,900	24,200	23,872	(328)
Other revenue	81,700	293,102	384,347	91,245
<b>Total revenues</b>	<b>5,530,000</b>	<b>5,824,502</b>	<b>5,822,266</b>	<b>(2,236)</b>
<b>Expenditures:</b>				
Current				
General government				
Council and Mayor	42,300	41,300	40,899	(401)
Manager	249,100	269,900	269,858	(42)
Clerk	255,100	277,500	277,457	(43)
Board of review	3,400	2,600	2,542	(58)
Treasurer	116,900	120,800	120,750	(50)
Assessor and Building inspector	207,200	199,100	199,003	(97)
Elections	2,200	13,100	13,023	(77)
Hall and grounds, downtown and other	315,100	286,400	286,207	(193)
Attorney	80,000	89,500	89,460	(40)
Cemetery	197,700	200,700	200,632	(68)
Board of ethics	200	200	-	(200)
<b>Total general government</b>	<b>1,469,200</b>	<b>1,501,100</b>	<b>1,499,831</b>	<b>(1,269)</b>
Public safety				
Police	1,437,400	1,502,000	1,501,895	(105)
Fire	212,000	195,900	195,823	(77)
<b>Total public safety</b>	<b>1,649,400</b>	<b>1,697,900</b>	<b>1,697,718</b>	<b>(182)</b>
Public works				
Department of public works	329,600	388,400	388,374	(26)
Sidewalk construction	110,000	107,700	107,620	(80)
Street lighting	120,000	137,900	138,632	732
Garbage and rubbish	712,000	719,700	719,677	(23)
<b>Total public works</b>	<b>1,271,600</b>	<b>1,353,700</b>	<b>1,354,303</b>	<b>603</b>

continued

# CITY OF LUDINGTON

## GENERAL FUND

### BUDGETARY COMPARISON SCHEDULE, CONTINUED

Year Ended December 31, 2015

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Actual</i>
	<i>Original</i>	<i>Final</i>		<i>Over (Under)</i>
				<i>Final Budget</i>
Community and economic development				
Planning	3,600	1,200	1,175	(25)
Economic development	98,400	88,600	88,536	(64)
Total community and economic development	102,000	89,800	89,711	(89)
Recreation and culture				
Parks	380,200	357,900	357,887	(13)
Beach safety	31,500	29,000	28,952	(48)
Launching ramps	68,300	71,700	71,632	(68)
Waterfront playground	-	3,600	3,551	(49)
Total recreation and culture	480,000	462,200	462,022	(178)
Other				
Insurance and bonds	36,700	37,400	37,337	(63)
Capital outlay	-	167,602	167,602	-
Debt service	18,200	17,100	17,092	(8)
Total expenditures	5,027,100	5,326,802	5,325,616	(1,186)
Excess (deficiency) of revenues over expenditures	502,900	497,700	496,650	(1,050)
<b>Other financing sources (uses):</b>				
Transfers from (to) other funds	(502,900)	(502,900)	(501,582)	1,318
Change in fund balance	-	(5,200)	(4,932)	268
Fund balance, beginning of year	1,491,139	1,491,139	1,491,139	-
Fund balance, end of year	\$ 1,491,139	\$ 1,485,939	\$ 1,486,207	\$ 268

***OTHER SUPPLEMENTARY INFORMATION***

# CITY OF LUDINGTON

## NONMAJOR GOVERNMENTAL FUNDS

### COMBINING BALANCE SHEET

December 31, 2015

	<i>Special Revenue Funds</i>				
	<i>Major Street Fund</i>	<i>Local Street Fund</i>	<i>Recreation Fund</i>	<i>Senior Center Fund</i>	<i>Building Rehab Fund</i>
<b>Assets:</b>					
Cash and investments	\$ 169,826	\$ 310,606	\$ 37,789	\$ 56,706	\$ 101,405
Accounts receivable	61	-	-	-	-
Notes receivable	-	-	-	-	5,207
Accrued interest receivable	49	90	11	16	-
Due from other governments	67,964	95,360	21,700	-	-
Inventory	70,617	-	-	-	-
Prepaid expenditures	2,211	2,431	1,622	1,304	-
Total assets	<u>\$ 310,728</u>	<u>\$ 408,487</u>	<u>\$ 61,122</u>	<u>\$ 58,026</u>	<u>\$ 106,612</u>
<b>Liabilities:</b>					
Accounts payable	\$ 2,942	\$ 1,872	\$ 37	\$ 545	\$ 10,065
Accrued expenses	3,274	3,328	1,179	2,241	-
Due to other governments	-	-	-	-	3,486
Unearned revenue	-	-	-	-	-
Total liabilities	<u>6,216</u>	<u>5,200</u>	<u>1,216</u>	<u>2,786</u>	<u>13,551</u>
<b>Deferred inflows of resources:</b>					
Unavailable revenue - state grant	-	45,745	-	-	-
<b>Fund balances:</b>					
Nonspendable	72,828	2,431	1,622	1,304	5,207
Restricted	231,684	355,111	-	53,936	-
Committed	-	-	58,284	-	87,854
Total fund balances	<u>304,512</u>	<u>357,542</u>	<u>59,906</u>	<u>55,240</u>	<u>93,061</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 310,728</u>	<u>\$ 408,487</u>	<u>\$ 61,122</u>	<u>\$ 58,026</u>	<u>\$ 106,612</u>

continued

# CITY OF LUDINGTON

## NONMAJOR GOVERNMENTAL FUNDS

### COMBINING BALANCE SHEET, CONTINUED

December 31, 2015

	<i>Special Revenue Fund</i>	<i>Debt Service Fund</i>	<i>Capital Projects Fund</i>	
	<i>Cemetery Capital Improvement Fund</i>	<i>Building Authority Bond Fund</i>	<i>W. Ludington Avenue Project Fund</i>	<i>Total</i>
<b>Assets:</b>				
Cash and investments	\$ 212,255	\$ 2	\$ 51,020	\$ 939,609
Accounts receivable	-	-	-	61
Notes receivable	-	-	-	5,207
Accrued interest receivable	61	-	-	227
Due from other governments	-	-	-	185,024
Inventory	-	-	-	70,617
Prepaid expenditures	-	-	-	7,568
	<u>212,316</u>	<u>2</u>	<u>51,020</u>	<u>1,208,313</u>
<b>Total assets</b>	<u>\$ 212,316</u>	<u>\$ 2</u>	<u>\$ 51,020</u>	<u>\$ 1,208,313</u>
<b>Liabilities:</b>				
Accounts payable	\$ -	\$ -	\$ -	\$ 15,461
Accrued expenses	-	-	-	10,022
Due to other governments	-	-	-	3,486
Unearned revenue	-	-	51,020	51,020
	<u>-</u>	<u>-</u>	<u>51,020</u>	<u>79,989</u>
<b>Total liabilities</b>	<u>-</u>	<u>-</u>	<u>51,020</u>	<u>79,989</u>
<b>Deferred inflows of resources:</b>				
Unavailable revenue - state grant	-	-	-	45,745
	<u>-</u>	<u>-</u>	<u>-</u>	<u>45,745</u>
<b>Fund balances:</b>				
Nonspendable	-	-	-	83,392
Restricted	-	2	-	640,733
Committed	212,316	-	-	358,454
	<u>212,316</u>	<u>-</u>	<u>-</u>	<u>358,454</u>
<b>Total fund balances</b>	<u>212,316</u>	<u>2</u>	<u>-</u>	<u>1,082,579</u>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<u>\$ 212,316</u>	<u>\$ 2</u>	<u>\$ 51,020</u>	<u>\$ 1,208,313</u>

# CITY OF LUDINGTON

## NONMAJOR GOVERNMENTAL FUNDS

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

Year Ended December 31, 2015

	<i>Special Revenue Funds</i>				
	<i>Major Street Fund</i>	<i>Local Street Fund</i>	<i>Recreation Fund</i>	<i>Senior Center Fund</i>	<i>Building Rehab Fund</i>
<b>Revenues:</b>					
Federal grants	\$ -	\$ -	\$ -	\$ 10,959	\$ -
State grants	512,222	279,267	-	-	-
Contributions from other units	-	-	45,418	151,778	-
Charges for services	-	-	47,228	5,831	-
Interest and rents	541	2,016	362	2,064	-
Other revenue	1,403	48	75,394	7,027	-
Total revenues	<u>514,166</u>	<u>281,331</u>	<u>168,402</u>	<u>177,659</u>	<u>-</u>
<b>Expenditures:</b>					
Current					
Public works	322,727	268,670	-	-	-
Health and welfare	-	-	-	168,263	-
Community and economic development	-	-	-	-	300
Recreation and culture	-	-	206,495	-	-
Capital outlay	43,996	102,530	-	-	-
Debt service					
Principal	-	-	-	-	-
Interest and fees	-	-	-	-	-
Total expenditures	<u>366,723</u>	<u>371,200</u>	<u>206,495</u>	<u>168,263</u>	<u>300</u>
Excess (deficiency) of revenues over expenditures	<u>147,443</u>	<u>(89,869)</u>	<u>(38,093)</u>	<u>9,396</u>	<u>(300)</u>
<b>Other financing sources (uses):</b>					
Transfers from (to) other funds	-	186,700	42,000	-	-
Changes in fund balances	147,443	96,831	3,907	9,396	(300)
Fund balances, beginning of year	<u>157,069</u>	<u>260,711</u>	<u>55,999</u>	<u>45,844</u>	<u>93,361</u>
Fund balances, end of year	<u>\$ 304,512</u>	<u>\$ 357,542</u>	<u>\$ 59,906</u>	<u>\$ 55,240</u>	<u>\$ 93,061</u>

continued

# CITY OF LUDINGTON

## NONMAJOR GOVERNMENTAL FUNDS

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

Year Ended December 31, 2015

	<i>Special Revenue Fund</i>	<i>Debt Service Fund</i>	<i>Capital Projects Fund</i>	
	<i>Cemetery Capital Improvement Fund</i>	<i>Building Authority Bond Fund</i>	<i>W. Ludington Avenue Project Fund</i>	<i>Total</i>
<b>Revenues:</b>				
Federal grants	\$ -	\$ -	\$ -	\$ 10,959
State grants	-	-	-	791,489
Contributions from other units	-	-	-	197,196
Charges for services	-	-	-	53,059
Interest and rents	1,233	-	-	6,216
Other revenue	6,700	-	-	90,572
Total revenues	<u>7,933</u>	<u>-</u>	<u>-</u>	<u>1,149,491</u>
<b>Expenditures:</b>				
Current				
Public works	-	-	-	591,397
Health and welfare	-	-	-	168,263
Community and economic development	-	-	-	300
Recreation and culture	-	-	-	206,495
Capital outlay	-	-	-	146,526
Debt service				
Principal	-	225,000	-	225,000
Interest and fees	-	49,115	-	49,115
Total expenditures	<u>-</u>	<u>274,115</u>	<u>-</u>	<u>1,387,096</u>
Excess (deficiency) of revenues over expenditures	<u>7,933</u>	<u>(274,115)</u>	<u>-</u>	<u>(237,605)</u>
<b>Other financing sources (uses):</b>				
Transfers from (to) other funds	<u>(1,233)</u>	<u>274,115</u>	<u>-</u>	<u>501,582</u>
Changes in fund balances	6,700	-	-	263,977
Fund balances, beginning of year	<u>205,616</u>	<u>2</u>	<u>-</u>	<u>818,602</u>
Fund balances, end of year	<u>\$ 212,316</u>	<u>\$ 2</u>	<u>\$ -</u>	<u>\$ 1,082,579</u>

# CITY OF LUDINGTON

## INTERNAL SERVICE FUNDS

### COMBINING STATEMENT OF NET POSITION

December 31, 2015

	<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	\$ 187,007	\$ -	\$ 187,007
Accounts receivable	7,471	-	7,471
Accrued interest receivable	54	-	54
Due from other governmental units	780	-	780
Inventory	58,379	-	58,379
Prepaid expenses	35,856	7,890	43,746
Total current assets	<u>289,547</u>	<u>7,890</u>	<u>297,437</u>
<b>Noncurrent assets:</b>			
Capital assets not being depreciated	4,250	-	4,250
Capital assets being depreciated, net	<u>2,622,533</u>	<u>49,039</u>	<u>2,671,572</u>
Total noncurrent assets	<u>2,626,783</u>	<u>49,039</u>	<u>2,675,822</u>
Total assets	<u>2,916,330</u>	<u>56,929</u>	<u>2,973,259</u>
<b>Deferred outflows of resources:</b>			
Pension	<u>53,572</u>	<u>-</u>	<u>53,572</u>
<b>Liabilities:</b>			
<b>Current liabilities:</b>			
Accounts payable	55,337	201	55,538
Accrued expenses	4,099	-	4,099
Due to other funds	<u>-</u>	<u>11,999</u>	<u>11,999</u>
Total current liabilities	<u>59,436</u>	<u>12,200</u>	<u>71,636</u>
<b>Noncurrent liabilities:</b>			
Compensated absences payable	5,347	-	5,347
Net pension liability	<u>410,045</u>	<u>-</u>	<u>410,045</u>
Total noncurrent liabilities	<u>415,392</u>	<u>-</u>	<u>415,392</u>
Total liabilities	<u>474,828</u>	<u>12,200</u>	<u>487,028</u>
<b>Net position:</b>			
Investment in capital assets	2,626,783	49,039	2,675,822
Unrestricted (deficit)	<u>(131,709)</u>	<u>(4,310)</u>	<u>(136,019)</u>
Total net position	<u>\$ 2,495,074</u>	<u>\$ 44,729</u>	<u>\$ 2,539,803</u>

# CITY OF LUDINGTON

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## INTERNAL SERVICE FUNDS

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

Year Ended December 31, 2015

	<i>Motor Pool</i> <u>Fund</u>	<i>Technology</i> <u>Fund</u>	<u>Total</u>
<b>Operating revenues:</b>			
Equipment rental - interfund charges	\$ 854,190	\$ 82,464	\$ 936,654
Other	<u>125,278</u>	<u>-</u>	<u>125,278</u>
Total operating revenues	<u>979,468</u>	<u>82,464</u>	<u>1,061,932</u>
<b>Operating expenses:</b>			
Personal services	326,134	-	326,134
Contracted services	20,484	44,086	64,570
Administrative expense	59,000	-	59,000
Insurance	54,450	-	54,450
Utilities	33,196	-	33,196
Repairs and maintenance	78,282	-	78,282
Other services and expenses	235,085	21,075	256,160
Depreciation	<u>215,875</u>	<u>17,303</u>	<u>233,178</u>
Total operating expenses	<u>1,022,506</u>	<u>82,464</u>	<u>1,104,970</u>
Operating income (loss)	<u>(43,038)</u>	<u>-</u>	<u>(43,038)</u>
<b>Non-operating revenues (expenses):</b>			
Interest income	<u>917</u>	<u>-</u>	<u>917</u>
Changes in net position	(42,121)	-	(42,121)
Net position, beginning of year, restated	<u>2,537,195</u>	<u>44,729</u>	<u>2,581,924</u>
Net position, end of year	<u>\$ 2,495,074</u>	<u>\$ 44,729</u>	<u>\$ 2,539,803</u>

# CITY OF LUDINGTON

## INTERNAL SERVICE FUNDS

### COMBINING STATEMENT OF CASH FLOWS

Year Ended December 31, 2015

	<i>Motor Pool Fund</i>	<i>Technology Fund</i>	<i>Total</i>
<b>Cash flows from operating activities:</b>			
Cash received from customers	\$ 132,893	\$ -	\$ 132,893
Cash received from interfund services	854,190	83,098	937,288
Cash payments to employees and on behalf of employees	(305,303)	-	(305,303)
Cash payments to suppliers for goods and services	(427,058)	(65,141)	(492,199)
Net cash provided (used) by operating activities	<u>254,722</u>	<u>17,957</u>	<u>272,679</u>
<b>Cash flows from capital and related financing activities:</b>			
Acquisition of capital assets	<u>(149,627)</u>	<u>(17,957)</u>	<u>(167,584)</u>
<b>Cash flows from investing activities:</b>			
Interest received	<u>929</u>	<u>-</u>	<u>929</u>
Net increase in cash and investments	106,024	-	106,024
Cash and investments, beginning of year	<u>80,983</u>	<u>-</u>	<u>80,983</u>
Cash and investments, end of year	<u>\$ 187,007</u>	<u>\$ -</u>	<u>\$ 187,007</u>
<b>Reconciliation of operating loss to net cash provided (used) by operating activities:</b>			
Operating loss	\$ (43,038)	\$ -	\$ (43,038)
Adjustments:			
Depreciation	215,875	17,303	233,178
Change in assets and liabilities:			
Accounts receivable	7,552	-	7,552
Due from other governments	63	-	63
Inventory	14,353	-	14,353
Prepaid expenses	14,054	(24)	14,030
Accounts payable	25,032	44	25,076
Accrued expenses	879	-	879
Due to other funds	-	634	634
Compensated absences payable	(2,121)	-	(2,121)
Net pension liability and related deferred outflow of resources	<u>22,073</u>	<u>-</u>	<u>22,073</u>
Net cash provided (used) by operating activities	<u>\$ 254,722</u>	<u>\$ 17,957</u>	<u>\$ 272,679</u>

# CITY OF LUDINGTON

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## GOVERNMENTAL ACTIVITIES

### SCHEDULE OF INDEBTEDNESS

December 31, 2015

#### 2005 BUILDING AUTHORITY REFUNDING BONDS

Issue in the amount of	\$ 2,135,000
Less: Principal paid in prior years	(870,000)
Principal paid in current year	<u>(225,000)</u>
Balance payable at December 31, 2015	<u>\$ 1,040,000</u>

Balance payable as follows:

<u>Year Ended</u>	<u>Interest Rate</u>	<u>Interest due February 1</u>	<u>Interest due August 1</u>	<u>Principal due August 1</u>	<u>Total Annual Requirement</u>
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>\$ 52,242</u>	<u>\$ 52,243</u>	<u>\$ 1,040,000</u>	<u>\$ 1,144,485</u>

#### 2013 COPIER/PRINTER CONTRACT PAYABLE

Issue in the amount of	\$ 89,160
Less: Principal paid in prior years	(26,545)
Principal paid in current year	<u>(17,092)</u>
Balance payable at December 31, 2015	<u>\$ 45,523</u>

Balance payable as follows:

<u>Year Ended</u>	<u>Interest Rate</u>	<u>Principal due</u>
2016	0.00%	\$ 17,832
2017	0.00%	17,832
2018	0.00%	<u>9,859</u>
		<u>\$ 45,523</u>

# CITY OF LUDINGTON

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## BUSINESS-TYPE ACTIVITIES

### SCHEDULE OF INDEBTEDNESS

December 31, 2015

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

Issue in the amount of	\$ 1,500,000
Less: Principal paid in prior years	(470,000)
Principal paid in current year	<u>(70,000)</u>
Balance payable at December 31, 2015	<u>\$ 960,000</u>

Balance payable as follows:

<u>Year Ended</u>	<u>Interest Rate</u>	<u>Interest due April 1</u>	<u>Interest due October 1</u>	<u>Principal due October 1</u>	<u>Total Annual Requirement</u>
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>\$ 52,001</u>	<u>\$ 52,001</u>	<u>\$ 960,000</u>	<u>\$ 1,064,002</u>



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Ludington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City of Ludington's basic financial statements, and have issued our report thereon dated April 25, 2016.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

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

**Purpose of this Report**

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

*Berthiaume & Co.*

Saginaw, Michigan  
April 25, 2016