

CITY OF LUDINGTON

Mason County, Michigan

FINANCIAL STATEMENTS

December 31, 2017

CITY OF LUDINGTON

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS:	
Government-wide Financial Statements:	
Statement of Net Position.....	11
Statement of Activities	13
Fund Financial Statements:	
Governmental Funds:	
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
Proprietary Funds:	
Statement of Net Position.....	19
Statement of Revenues, Expenses and Changes in Fund Net Position.....	23
Statement of Cash Flows	25
Fiduciary Funds:	
Statement of Fiduciary Net Position.....	29
Statement of Changes in Fiduciary Net Position.....	30
<i>Notes to Financial Statements</i>	32
REQUIRED SUPPLEMENTARY INFORMATION:	
Schedule of Other Postemployment Benefits Funding Progress.....	61
Schedules of Changes in the City's General (MERS) Net Pension Liability and Related Ratios.....	62
Schedule of Changes in the City's Police Net Pension Liability and Related Ratios.....	63
Schedule of City General (MERS) Defined Benefit Pension Contributions.....	64
Schedule of City Police Defined Benefit Pension Contributions.....	65
Budgetary Comparison Schedule – General Fund.....	66
OTHER SUPPLEMENTARY INFORMATION:	
Nonmajor Governmental Funds:	
Combining Balance Sheet	69
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	71
Internal Service Funds:	
Combining Statement of Net Position.....	73
Combining Statement of Revenues, Expenses and Changes in Fund Net Position.....	74
Combining Statement of Cash Flows.....	75
Component Unit:	
Balance Sheet.....	76
Statement of Revenues, Expenditures and Changes in Fund Balances.....	77
<i>Schedules of Indebtedness</i>	78
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	86



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, 2017, 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 from 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 of the financial statements.

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, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 4 through 9), schedule other postemployment benefits funding progress (page 61), schedules of changes in the City's General (MERS) and the City's Police net pension liability and related ratios (pages 62 and 63), schedules of City and City Police pension contributions (pages 64 and 65), and budgetary comparison information (pages 66 and 67) 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, 2018 on our consideration of the City of Ludington's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Ludington's internal control over financial reporting and compliance.

Berthiaume & Co.

Saginaw, Michigan
April 25, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF LUDINGTON

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2017

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, 2017. 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 \$29,595,529 for the year ended December 31, 2017, compared to \$26,290,507 for the year ended December 31, 2016.
- In the City's governmental activities, revenues generated were \$7,276,938 while expenses totaled \$6,161,833.
- In the City's business-type activities, revenues generated were \$6,143,038 while expenses totaled \$3,991,102.
- Total net position increased by \$3,305,022.

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, wastewater collection and treatment, marina and Cartier park campground.

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

CITY OF LUDINGTON

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2017

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 ten (10) individual governmental funds. Separate information is presented for the General Fund, which is considered a "major" fund. Data from the other nine (9) 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, 2017

CITY OF LUDINGTON AS A WHOLE:

The City's total combined net position for the year ended December 31, 2017 is \$29,595,529, consisting of \$10,998,948 in governmental activities and \$18,596,581 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 \$2,348,718. Governmental activities unrestricted total is a deficit of \$3,123,708, while business-type activities is a positive \$774,990.

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, 2017 and 2016:

	<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>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Assets:						
Current assets	\$ 8,984,692	\$ 7,720,008	\$ 4,788,247	\$ 2,706,937	\$ 13,772,939	\$ 10,426,945
Noncurrent assets:						
Restricted assets	-	-	1,296,578	1,070,082	1,296,578	1,070,082
Capital assets, net	<u>13,586,382</u>	<u>13,849,925</u>	<u>28,608,294</u>	<u>18,011,943</u>	<u>42,194,676</u>	<u>31,861,868</u>
Total assets	<u>22,571,074</u>	<u>21,569,933</u>	<u>34,693,119</u>	<u>21,788,962</u>	<u>57,264,193</u>	<u>43,358,895</u>
Deferred outflows of resources	<u>311,044</u>	<u>906,395</u>	<u>113,605</u>	<u>480,156</u>	<u>424,649</u>	<u>1,386,551</u>
Liabilities:						
Other liabilities	410,190	338,986	1,482,253	456,360	1,892,443	795,346
Long-term liabilities	<u>6,594,492</u>	<u>8,024,436</u>	<u>14,698,955</u>	<u>5,308,244</u>	<u>21,293,447</u>	<u>13,332,680</u>
Total liabilities	<u>7,004,682</u>	<u>8,363,422</u>	<u>16,181,208</u>	<u>5,764,604</u>	<u>23,185,890</u>	<u>14,128,026</u>
Deferred inflows of resources	<u>4,878,488</u>	<u>4,267,044</u>	<u>28,935</u>	<u>59,869</u>	<u>4,907,423</u>	<u>4,326,913</u>
Net position:						
Net investment in capital assets	13,035,267	13,025,415	16,525,013	16,001,943	29,560,280	29,027,358
Restricted	1,087,389	752,202	1,296,578	1,070,082	2,383,967	1,822,284
Unrestricted (deficit)	<u>(3,123,708)</u>	<u>(3,931,755)</u>	<u>774,990</u>	<u>(627,380)</u>	<u>(2,348,718)</u>	<u>(4,559,135)</u>
Total net position	<u>\$ 10,998,948</u>	<u>\$ 9,845,862</u>	<u>\$ 18,596,581</u>	<u>\$ 16,444,645</u>	<u>\$ 29,595,529</u>	<u>\$ 26,290,507</u>

During the current year, the City's combined total net position increased by \$3,305,022 from the prior year balance. Governmental activities increased by \$1,153,086 while business-type activities increased by \$2,151,936.

CITY OF LUDINGTON

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2017

The following table shows comparison of the change in net position in a condensed format for the years ended December 31, 2017 and 2016:

	<i>Governmental</i>		<i>Business-type</i>		<i>Total</i>	
	<i>Activities</i>		<i>Activities</i>			
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Revenues:						
Program revenues						
Charges for services	\$ 807,737	\$ 817,087	\$ 5,029,112	\$ 4,844,522	\$ 5,836,849	\$ 5,661,609
Operating grants	1,217,519	1,017,049	585	-	1,218,104	1,017,049
Capital grants	74,590	1,355,300	1,081,046	-	1,155,636	1,355,300
General revenues						
Property taxes	3,847,372	3,934,968	-	-	3,847,372	3,934,968
Franchise fees	85,674	88,581	-	-	85,674	88,581
State revenue sharing	1,072,870	753,010	-	-	1,072,870	753,010
Investment earnings	40,311	23,857	26,816	12,422	67,127	36,279
Other	130,865	93,596	5,479	693	136,344	94,289
Total revenues	<u>7,276,938</u>	<u>8,083,448</u>	<u>6,143,038</u>	<u>4,857,637</u>	<u>13,419,976</u>	<u>12,941,085</u>
Expenses:						
General government	1,070,966	1,407,056	-	-	1,070,966	1,407,056
Public safety	1,798,417	1,982,718	-	-	1,798,417	1,982,718
Public works	2,217,631	2,624,436	-	-	2,217,631	2,624,436
Health and welfare	170,349	202,802	-	-	170,349	202,802
Community and economic development	96,485	104,456	-	-	96,485	104,456
Recreation and culture	773,518	734,653	-	-	773,518	734,653
Interest on long-term debt	34,467	45,654	-	-	34,467	45,654
Sewer	-	-	1,399,447	1,498,282	1,399,447	1,498,282
Water	-	-	1,654,120	1,801,950	1,654,120	1,801,950
Marina	-	-	718,788	798,338	718,788	798,338
Cartier Park Campground	-	-	218,747	224,244	218,747	224,244
Total expenses	<u>6,161,833</u>	<u>7,101,775</u>	<u>3,991,102</u>	<u>4,322,814</u>	<u>10,152,935</u>	<u>11,424,589</u>
Excess of revenues over expenses before other	<u>1,115,105</u>	<u>981,673</u>	<u>2,151,936</u>	<u>534,823</u>	<u>3,267,041</u>	<u>1,516,496</u>
Other items:						
Sale of capital assets	<u>37,981</u>	<u>(12,205)</u>	<u>-</u>	<u>-</u>	<u>37,981</u>	<u>(12,205)</u>
Changes in net position	1,153,086	969,468	2,151,936	534,823	3,305,022	1,504,291
Net position, beginning of year	<u>9,845,862</u>	<u>8,876,394</u>	<u>16,444,645</u>	<u>15,909,822</u>	<u>26,290,507</u>	<u>24,786,216</u>
Net position, end of year	<u>\$10,998,948</u>	<u>\$ 9,845,862</u>	<u>\$18,596,581</u>	<u>\$16,444,645</u>	<u>\$29,595,529</u>	<u>\$26,290,507</u>

CITY OF LUDINGTON

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2017

CITY OF LUDINGTON'S FUNDS:

Presentation of the City of Ludington's major fund and nonmajor 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, 2017, General Fund financing sources exceeded its financing uses by \$261,436, increasing its ending fund balance to \$1,941,072.

General Fund Budgetary Highlights:

The General Fund budget, as originally adopted, projected an increase in fund balance of \$9,100. During the year, the City made budget amendments that changed the projection to a net increase in fund balance of \$209,100. The actual results for the year yielded a net increase in fund balance of \$261,436.

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

- Driving simulator grant revenue received in the amount of \$28,750.
- Interest income was \$12,211 more than budgeted.
- Cemetery grave openings and foundation sales increased \$11,450.
- MMRMA insurance reimbursement received was \$111,567 and was not budgeted.
- Personal property tax reimbursement increased \$160,650 over the budget amount.

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

- The City spent \$3,841 on a new security door at the City Hall.
- The City purchased a new driving simulator for \$23,220 with grant money as noted earlier.
- The City spent \$31,533 on replacing the security camera system at City Hall and at some parks.
- New election equipment was purchased for \$55,120 with grant money in the amount of \$41,340.

Capital Assets and Debt Administration:

At December 31, 2017, the City of Ludington had \$42,194,676 invested in capital assets including land, buildings, equipment, land improvements, water and sewer lines and other infrastructure, net of accumulated depreciation. At December 31, 2016, this total was \$31,861,868. Additional information about the City's capital assets is presented in Note 1 and Note 6 of the Notes to the Financial Statements.

CITY OF LUDINGTON

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2017

At December 31, 2017, the City of Ludington's total long-term indebtedness (not including liabilities for compensated absences payable, net OPEB obligation, and net pension liability) was \$12,634,396, of which \$551,115 was backed by the full faith and credit of the City and the remaining \$12,083,281 is backed solely by specified revenue sources. Additional information about the City's indebtedness is presented in Note 7 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 need to replace old and worn out infrastructure and the rising cost of pensions and healthcare will continue to present significant budgetary challenges.

The City has approved a budget for 2018 where the City is expected to spend \$68,200 of its fund balance in the General Fund. Using these funds from the City's fund balance, the City will still maintain 30% fund balance (25% fund balance is the City's goal) in the General Fund for 2018 and 2020, when excluding the one-time expenditures to design and construct the new fire station. In 2019, the fund balance is budgeted to be 26.5% of the General Fund expenditures. The City has again completed a three-year financial projection through the year 2020 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 projections reflect that the General Fund's ability to contribute to infrastructure projects, such as repaving local streets, has been significantly impacted. It should be noted that the bonds to construct City Hall will be paid off in 2019, which will free up about \$296,400 in the General Fund that can be used toward other expenditures.

The City has issued USDA Rural Development bonds in 2016 and 2017 and will continue to do so in 2018 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 streets 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, 2017

	<i>Primary Government</i>			<i>Component Unit</i>
	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Total</i>	
Assets:				
Cash and cash equivalents	\$ 2,118,189	\$ 2,477,868	\$ 4,596,057	\$ 191,367
Investments	1,430,842	-	1,430,842	-
Receivables	4,837,118	2,321,262	7,158,380	119,473
Internal balances	314,275	(314,275)	-	-
Inventory	120,331	223,322	343,653	-
Prepaid expenses	163,937	80,070	244,007	4,234
Restricted cash and cash equivalents	-	1,296,578	1,296,578	-
Capital assets not being depreciated	213,254	13,109,555	13,322,809	-
Capital assets being depreciated, net	<u>13,373,128</u>	<u>15,498,739</u>	<u>28,871,867</u>	<u>17,034</u>
Total assets	<u>22,571,074</u>	<u>34,693,119</u>	<u>57,264,193</u>	<u>332,108</u>
Deferred outflows of resources:				
Refunding bond costs	7,634	-	7,634	-
Related to pension - General (MERS)	<u>303,410</u>	<u>113,605</u>	<u>417,015</u>	<u>-</u>
	<u>311,044</u>	<u>113,605</u>	<u>424,649</u>	<u>-</u>
Liabilities:				
Accounts payable and accrued expenses	359,437	1,377,569	1,737,006	11,494
Unearned revenue	50,753	104,684	155,437	8,217
Long-term liabilities:				
Due within one year				
Current portion of long-term debt	266,115	335,000	601,115	-
Long-term liabilities:				
Long-term debt	285,000	11,748,281	12,033,281	-
Compensated absences payable	114,257	44,661	158,918	-
Net OPEB obligation	228,698	14,764	243,462	-
Net pension liability - General (MERS)	3,637,100	2,556,249	6,193,349	-
Net pension liability - Police	<u>2,063,322</u>	<u>-</u>	<u>2,063,322</u>	<u>-</u>
Total liabilities	<u>7,004,682</u>	<u>16,181,208</u>	<u>23,185,890</u>	<u>19,711</u>
Deferred inflows of resources:				
Unavailable revenue - property taxes	4,479,433	-	4,479,433	117,892
Related to pension - General (MERS)	218,021	28,935	246,956	-
Related to pension - Police	<u>181,034</u>	<u>-</u>	<u>181,034</u>	<u>-</u>
Total deferred inflow of resources	<u>4,878,488</u>	<u>28,935</u>	<u>4,907,423</u>	<u>117,892</u>

continued

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

CITY OF LUDINGTON

STATEMENT OF NET POSITION, CONTINUED December 31, 2017

	<i>Primary Government</i>			<i>Component Unit</i>
	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Total</i>	
Net position:				
Net investment in capital assets	13,035,267	16,525,013	29,560,280	17,034
Restricted for:				
Bond and RRI reserve	2	205,318	205,320	-
Equipment replacement and other reserves	-	1,091,260	1,091,260	-
Senior center activities	45,978	-	45,978	-
Streets	1,041,409	-	1,041,409	-
Unrestricted (deficit)	<u>(3,123,708)</u>	<u>774,990</u>	<u>(2,348,718)</u>	<u>177,471</u>
Total net position	<u>\$ 10,998,948</u>	<u>\$ 18,596,581</u>	<u>\$ 29,595,529</u>	<u>\$ 194,505</u>

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

CITY OF LUDINGTON

STATEMENT OF ACTIVITIES Year Ended December 31, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
PRIMARY GOVERNMENT:					
<i>Governmental activities:</i>					
General government	\$ 1,070,966	\$ 328,561	\$ 12,250	\$ 41,340	\$ (688,815)
Public safety	1,798,417	127,333	134,541	28,750	(1,507,793)
Public works	2,217,631	181,614	901,172	-	(1,134,845)
Health and welfare	170,349	11,222	173,776	-	14,649
Community and economic development	96,485	2,700	-	-	(93,785)
Recreation and culture	773,518	96,688	55,399	4,500	(616,931)
Interest on long-term debt	34,467	-	-	-	(34,467)
Total governmental activities	<u>6,161,833</u>	<u>748,118</u>	<u>1,277,138</u>	<u>74,590</u>	<u>(4,061,987)</u>
<i>Business-type activities:</i>					
Sewer	1,399,447	1,956,961	-	896,452	1,453,966
Water	1,654,120	2,154,522	-	184,594	684,996
Marina	718,788	664,463	-	-	(54,325)
Cartier Park Campground	218,747	253,166	585	-	35,004
Total business-type activities	<u>3,991,102</u>	<u>5,029,112</u>	<u>585</u>	<u>1,081,046</u>	<u>2,119,641</u>
Total primary government	<u>\$ 10,152,935</u>	<u>\$ 5,777,230</u>	<u>\$ 1,277,723</u>	<u>\$ 1,155,636</u>	<u>\$ (1,942,346)</u>
COMPONENT UNIT:					
Downtown development authority	<u>\$ 197,403</u>	<u>\$ 27,414</u>	<u>\$ 90,292</u>	<u>\$ -</u>	<u>\$ (79,697)</u>

continued

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

CITY OF LUDINGTON

STATEMENT OF ACTIVITIES, CONTINUED

Year Ended December 31, 2017

	<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	\$ (4,061,987)	\$ 2,119,641	\$ (1,942,346)	\$ (79,697)
General revenues:				
Taxes:				
Property taxes, levied for general purpose	3,766,739	-	3,766,739	-
Property taxes, levied and captured by DDA	-	-	-	108,642
Payment in lieu of taxes	80,633	-	80,633	-
Franchise fees	85,674	-	85,674	-
Grants and contributions not restricted to specific programs	1,072,870	-	1,072,870	7,676
Unrestricted investment earnings	40,311	26,816	67,127	1,797
Other	130,865	5,479	136,344	-
Special item - Gain (loss) on sale of capital asset	37,981	-	37,981	-
Total general revenues and special item	<u>5,215,073</u>	<u>32,295</u>	<u>5,247,368</u>	<u>118,115</u>
Changes in net position	1,153,086	2,151,936	3,305,022	38,418
Net position, beginning of year	<u>9,845,862</u>	<u>16,444,645</u>	<u>26,290,507</u>	<u>156,087</u>
Net position, end of year	<u>\$ 10,998,948</u>	<u>\$ 18,596,581</u>	<u>\$ 29,595,529</u>	<u>\$ 194,505</u>

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

CITY OF LUDINGTON

GOVERNMENTAL FUNDS

BALANCE SHEET

December 31, 2017

	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Assets:			
Cash and cash equivalents	\$ 427,495	\$ 1,383,820	\$ 1,811,315
Investments	1,430,842	-	1,430,842
Taxes receivable	4,479,433	-	4,479,433
Accounts receivable	59,530	2,569	62,099
Special assessments receivable	4,676	-	4,676
Notes receivable	-	5,207	5,207
Accrued interest receivable	733	485	1,218
Due from other governments	142,107	140,021	282,128
Inventory	27,633	40,238	67,871
Prepaid expenditures	111,910	8,760	120,670
Total assets	<u>\$ 6,684,359</u>	<u>\$ 1,581,100</u>	<u>\$ 8,265,459</u>
Liabilities:			
Accounts payable	\$ 170,402	\$ 39,954	\$ 210,356
Accrued expenses	87,302	17,863	105,165
Due to other governments	-	9,261	9,261
Deposits payable	2,115	-	2,115
Unearned revenue	4,035	46,718	50,753
Total liabilities	<u>263,854</u>	<u>113,796</u>	<u>377,650</u>
Deferred inflows of resources:			
Unavailable revenue - property taxes	<u>4,479,433</u>	<u>-</u>	<u>4,479,433</u>
Fund balances:			
Nonspendable	139,543	54,205	193,748
Restricted	-	1,413,099	1,413,099
Unassigned	1,801,529	-	1,801,529
Total fund balances	<u>1,941,072</u>	<u>1,467,304</u>	<u>3,408,376</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 6,684,359</u>	<u>\$ 1,581,100</u>	<u>\$ 8,265,459</u>

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

CITY OF LUDINGTON

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

December 31, 2017

Fund balances of governmental funds	\$ 3,408,376
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	209,004
Capital assets being depreciated, net	10,824,052
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.	7,634
Certain pension-related amounts, such as the net pension liability and deferred amounts are not due and payable in the current period or do not represent current financial resources and therefore are not reported in the funds.	
Net pension liability	(5,360,014)
Deferred pension amounts	(101,799)
Interest payable in the governmental activities is not payable from current financial resources and therefore is not reported in the governmental funds.	(9,056)
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	(551,115)
Compensated absences payable	(108,357)
Net OPEB obligation	(228,698)
Internal service funds are used by management to charge certain costs to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position.	
Net position of governmental activities accounted for in internal service funds	2,594,646
Net position allocated to business-type activities from governmental activities internal service funds	314,275
Net position of governmental activities	<u><u>\$ 10,998,948</u></u>

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

CITY OF LUDINGTON

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended December 31, 2017

	<i>General Fund</i>	<i>Nonmajor Funds</i>	<i>Total</i>
Revenues:			
Property taxes	\$ 3,855,202	\$ -	\$ 3,855,202
Special assessments	285	-	285
Licenses and permits	118,694	-	118,694
Federal grants	56,149	96,471	152,620
State grants	1,127,726	841,553	1,969,279
Contributions from other units	78,084	200,900	278,984
Charges for services	603,795	151,782	755,577
Fines and forfeits	31,213	-	31,213
Interest and rents	31,819	13,555	45,374
Other revenue	232,005	24,538	256,543
Total revenues	6,134,972	1,328,799	7,463,771
Expenditures:			
Current			
General government	1,279,146	-	1,279,146
Public safety	1,723,009	28,582	1,751,591
Public works	1,599,989	568,838	2,168,827
Health and welfare	-	194,696	194,696
Community and economic development	106,956	82,029	188,985
Recreation and culture	495,382	151,748	647,130
Other	37,231	-	37,231
Capital outlay	314,085	-	314,085
Debt service			
Principal	23,395	250,000	273,395
Interest and fees	-	31,235	31,235
Total expenditures	5,579,193	1,307,128	6,886,321
Excess (deficiency) of revenues over expenditures	555,779	21,671	577,450
Other financing sources (uses):			
Sale of capital assets	27,028	-	27,028
Interfund transfers in	1,864	452,435	454,299
Interfund transfers out	(323,235)	(131,064)	(454,299)
Net other financing sources (uses)	(294,343)	321,371	27,028
Changes in fund balances	261,436	343,042	604,478
Fund balances, beginning of year	1,679,636	1,124,262	2,803,898
Fund balances, end of year	<u>\$ 1,941,072</u>	<u>\$ 1,467,304</u>	<u>\$ 3,408,376</u>

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

CITY OF LUDINGTON

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

Year Ended December 31, 2017

Changes in fund balances of governmental funds	\$ 604,478
Change in net position reported for governmental activities in the statement of activities is different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense.	
Capital assets purchased/constructed	318,585
Depreciation expense	(479,762)
Loss on book value of land disposal	(47,500)
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.	(7,191)
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.	273,395
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 the governmental funds.	
Change in accrued interest on bonds	3,959
Change in compensated absences payable	(11,230)
Change in net OPEB obligation	(28,204)
Change in net pension liability and related deferred amounts	470,268
Internal service funds are used by management to charge certain costs to individual funds. The change in net position of the internal service funds is reported with governmental activities.	
Change in net position of governmental activities accounted for in internal service funds	55,100
Change in net position of governmental activities accounted for in internal service funds charged to business-type activities.	1,188
Change in net position of governmental activities	<u><u>\$ 1,153,086</u></u>

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

CITY OF LUDINGTON

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

December 31, 2017

	<i>Enterprise Funds</i>			
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Marina Fund</i>	<i>Nonmajor Cartier Park Campground Fund</i>
Assets:				
Current assets:				
Cash and cash equivalents	\$ 1,112,758	\$ 590,190	\$ 553,403	\$ 221,517
Accounts receivable	496,389	502,285	-	-
Accrued interest receivable	695	448	218	87
Due from other governments	728,357	592,783	-	-
Inventory	48,143	158,624	16,555	-
Prepaid expenses	28,302	40,986	8,270	2,512
Total current assets	<u>2,414,644</u>	<u>1,885,316</u>	<u>578,446</u>	<u>224,116</u>
Noncurrent assets:				
Restricted cash and cash equivalents				
USDA bond reserve	17,200	81,000	-	-
USDA RRI reserve	78,250	28,868	-	-
Equipment replacement and other reserves	587,702	503,558	-	-
Capital assets not being depreciated	2,448,017	9,870,145	791,393	-
Capital assets being depreciated, net	8,074,108	5,888,905	1,327,594	208,132
Total noncurrent assets	<u>11,205,277</u>	<u>16,372,476</u>	<u>2,118,987</u>	<u>208,132</u>
Total assets	<u>13,619,921</u>	<u>18,257,792</u>	<u>2,697,433</u>	<u>432,248</u>
Deferred outflows of resources:				
Related to pension	43,854	68,294	1,176	281
Liabilities:				
Current liabilities:				
Accounts payable	586,974	662,378	10,511	9,428
Accrued expenses	15,176	23,918	1,582	1,065
Deposits payable	-	6,250	-	-
Accrued interest payable	16,466	43,821	-	-
Unearned revenue	-	-	104,684	-
Current long-term debt	107,000	228,000	-	-
Total current liabilities	<u>725,616</u>	<u>964,367</u>	<u>116,777</u>	<u>10,493</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, 2017

	<u>Enterprise Funds</u>	<u>Internal Service Funds</u>
	<u>Total</u>	
Assets:		
Current assets:		
Cash and cash equivalents	\$ 2,477,868	\$ 306,874
Accounts receivable	998,674	60
Accrued interest receivable	1,448	109
Due from other governments	1,321,140	2,188
Inventory	223,322	52,460
Prepaid expenses	<u>80,070</u>	<u>43,267</u>
Total current assets	<u>5,102,522</u>	<u>404,958</u>
Noncurrent assets:		
Restricted cash and cash equivalents		
USDA bond reserve	98,200	-
USDA RRI reserve	107,118	-
Equipment replacement and other reserves	1,091,260	-
Capital assets not being depreciated	13,109,555	4,250
Capital assets being depreciated, net	<u>15,498,739</u>	<u>2,549,076</u>
Total noncurrent assets	<u>29,904,872</u>	<u>2,553,326</u>
Total assets	<u>35,007,394</u>	<u>2,958,284</u>
Deferred outflows of resources:		
Related to pension	<u>113,605</u>	<u>27,239</u>
Liabilities:		
Current liabilities:		
Accounts payable	1,269,291	15,677
Accrued expenses	41,741	7,807
Deposits payable	6,250	-
Accrued interest payable	60,287	-
Unearned revenue	104,684	-
Current long-term debt	<u>335,000</u>	<u>-</u>
Total current liabilities	<u>1,817,253</u>	<u>23,484</u>

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

CITY OF LUDINGTON

PROPRIETARY FUNDS

STATEMENT OF NET POSITION, CONTINUED

December 31, 2017

	<i>Enterprise Funds</i>			
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Marina Fund</i>	<i>Nonmajor Cartier Park Campground Fund</i>
Noncurrent liabilities:				
Long-term debt	2,627,498	9,120,783	-	-
Compensated absences payable	12,751	25,203	5,846	861
Net pension liability	982,141	1,519,003	53,393	1,712
Net OPEB obligation	4,905	8,768	1,091	-
Total noncurrent liabilities	<u>3,627,295</u>	<u>10,673,757</u>	<u>60,330</u>	<u>2,573</u>
Total liabilities	<u>4,352,911</u>	<u>11,638,124</u>	<u>177,107</u>	<u>13,066</u>
Deferred inflows of resources:				
Related to pension	<u>11,435</u>	<u>16,853</u>	<u>587</u>	<u>60</u>
Net position:				
Net investment in capital assets	7,787,627	6,410,267	2,118,987	208,132
Restricted for:				
Bond and RRI reserve	95,450	109,868	-	-
Equipment replacement and other reserves	587,702	503,558	-	-
Unrestricted (deficit)	<u>828,650</u>	<u>(352,584)</u>	<u>401,928</u>	<u>211,271</u>
Total net position	<u>\$ 9,299,429</u>	<u>\$ 6,671,109</u>	<u>\$ 2,520,915</u>	<u>\$ 419,403</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, 2017

	<u>Enterprise Funds</u>	<u>Internal Service Funds</u>
	<u>Total</u>	
Noncurrent liabilities:		
Long-term debt	11,748,281	-
Compensated absences payable	44,661	5,900
Net pension liability	2,556,249	340,408
Net OPEB obligation	14,764	-
Total noncurrent liabilities	<u>14,363,955</u>	<u>346,308</u>
Total liabilities	<u>16,181,208</u>	<u>369,792</u>
Deferred inflows of resources:		
Related to pension	<u>28,935</u>	<u>21,085</u>
Net position:		
Net investment in capital assets	16,525,013	2,553,326
Restricted for:		
Bond and RRI reserve	205,318	-
Equipment replacement and other reserves	1,091,260	-
Unrestricted (deficit)	1,089,265	<u>41,320</u>
Total net position	18,910,856	<u>\$ 2,594,646</u>
Adjustment to reflect the allocation of internal service fund activities related to business-type activities.	<u>(314,275)</u>	
Net position of business-type activities	<u>\$ 18,596,581</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, 2017

	<i>Enterprise Funds</i>			
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Marina Fund</i>	<i>Nonmajor Cartier Park Campground Fund</i>
Operating revenues:				
Charges for services	\$ 1,956,319	\$ 2,035,975	\$ 664,263	\$ 237,297
Equipment rental	-	-	-	-
Other	642	4,093	200	15,869
Total operating revenues	<u>1,956,961</u>	<u>2,040,068</u>	<u>664,463</u>	<u>253,166</u>
Operating expenses:				
Personal services	407,009	707,978	151,137	104,998
Contracted services	61,590	108,852	52,274	15,876
Administrative expense	82,100	82,100	47,800	41,000
Insurance	27,923	27,923	7,756	-
Utilities	292,669	173,191	30,561	19,636
Repairs and maintenance	25,769	15,883	7,789	2,123
Other services and expenses	192,698	187,081	326,600	29,395
Depreciation	268,781	268,240	94,800	5,661
Total operating expenses	<u>1,358,539</u>	<u>1,571,248</u>	<u>718,717</u>	<u>218,689</u>
Operating income (loss)	<u>598,422</u>	<u>468,820</u>	<u>(54,254)</u>	<u>34,477</u>
Non-operating revenues (expenses):				
Interest income	11,031	9,393	4,471	1,921
Rental income	-	114,454	-	-
Sale of capital assets	-	-	-	-
Contributions	-	-	-	585
Other income	2,949	2,443	87	-
Interest expense	(40,454)	(82,267)	-	-
Net non-operating revenues (expenses)	<u>(26,474)</u>	<u>44,023</u>	<u>4,558</u>	<u>2,506</u>
Changes in net position before capital contributions	571,948	512,843	(49,696)	36,983
Capital contributions - state grants	<u>896,452</u>	<u>184,594</u>	<u>-</u>	<u>-</u>
Changes in net position	1,468,400	697,437	(49,696)	36,983
Net position, beginning of year	<u>7,831,029</u>	<u>5,973,672</u>	<u>2,570,611</u>	<u>382,420</u>
Net position, end of year	<u>\$ 9,299,429</u>	<u>\$ 6,671,109</u>	<u>\$ 2,520,915</u>	<u>\$ 419,403</u>

continued

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

CITY OF LUDINGTON

PROPRIETARY FUNDS

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

Year Ended December 31, 2017

	<u>Enterprise Funds</u>	<u>Internal Service Funds</u>
	<u>Total</u>	
Operating revenues:		
Charges for services	\$ 4,893,854	\$ -
Equipment rental	-	986,257
Other	20,804	16,484
	<u>4,914,658</u>	<u>1,002,741</u>
Operating expenses:		
Personal services	1,371,122	292,247
Contracted services	238,592	57,882
Administrative expense	253,000	61,500
Insurance	63,602	54,295
Utilities	516,057	31,538
Repairs and maintenance	51,564	97,560
Other services and expenses	735,774	154,527
Depreciation	637,482	259,525
	<u>3,867,193</u>	<u>1,009,074</u>
Operating income (loss)	<u>1,047,465</u>	<u>(6,333)</u>
Non-operating revenues (expenses):		
Interest income	26,816	1,240
Rental income	114,454	-
Sale of capital assets	-	58,453
Contributions	585	-
Other income	5,479	1,740
Interest expense	(122,721)	-
	<u>24,613</u>	<u>61,433</u>
Net non-operating revenues (expenses)		
Changes in net position before capital contributions	1,072,078	55,100
Capital contributions - state grants	<u>1,081,046</u>	<u>-</u>
Changes in net position	2,153,124	55,100
Net position, beginning of year		<u>2,539,546</u>
Net position, end of year		<u>\$ 2,594,646</u>
Adjustment to reflect the allocation of internal service fund activities to business-type activities.	<u>(1,188)</u>	
Changes in net position of business-type activities	<u>\$ 2,151,936</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, 2017

	<i>Enterprise Funds</i>			
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Marina Fund</i>	<i>Nonmajor Cartier Park Campground Fund</i>
Cash flows from operating activities:				
Cash received from customers	\$ 1,873,623	\$ 2,018,265	\$ 677,261	\$ 253,166
Cash received from interfund services	-	-	-	-
Cash payments to and on behalf of employees	(540,413)	(913,415)	(159,625)	(104,622)
Cash payments to suppliers for goods and services	(694,694)	(565,853)	(471,168)	(108,803)
Net cash provided (used) by operating activities	638,516	538,997	46,468	39,741
Cash flows from non-capital financing activities:				
Contributions	-	-	-	585
Other income	2,949	2,443	87	-
Net cash provided (used) by non-capital financing activities	2,949	2,443	87	585
Cash flows from capital and related financing activities:				
Capital contributions - state grants	184,593	184,594	-	-
Sale of capital assets	-	-	-	-
Acquisition and construction of capital assets	(2,131,709)	(8,178,213)	-	(6,000)
Proceeds from bonds	1,946,000	7,863,000	-	-
Principal payments	(113,000)	(232,000)	-	-
Interest paid	(23,988)	(38,446)	-	-
Net cash provided (used) by capital and related financing activities	(138,104)	(401,065)	-	(6,000)
Cash flows from investing activities:				
Interest received	10,621	9,154	4,365	1,875
Rent received	-	114,454	-	-
Net cash provided by investing activities	10,621	123,608	4,365	1,875

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, 2017

	<u>Enterprise Funds</u> <u>Total</u>	<u>Internal Service Funds</u>
Cash flows from operating activities:		
Cash received from customers	\$ 4,822,315	\$ 15,251
Cash received from interfund services	-	986,257
Cash payments to and on behalf of employees	(1,718,075)	(343,377)
Cash payments to suppliers for goods and services	<u>(1,840,518)</u>	<u>(460,061)</u>
Net cash provided (used) by operating activities	<u>1,263,722</u>	<u>198,070</u>
Cash flows from non-capital financing activities:		
Contributions	585	-
Other income	<u>5,479</u>	<u>1,740</u>
Net cash provided (used) by non-capital financing activities	<u>6,064</u>	<u>1,740</u>
Cash flows from capital and related financing activities:		
Capital contributions - state grants	369,187	-
Sale of capital assets	-	58,453
Acquisition and construction of capital assets	(10,315,922)	(204,659)
Proceeds from bonds	9,809,000	-
Principal payments	(345,000)	-
Interest paid	<u>(62,434)</u>	<u>-</u>
Net cash provided (used) by capital and related financing activities	<u>(545,169)</u>	<u>(146,206)</u>
Cash flows from investing activities:		
Interest received	26,015	1,186
Rent received	<u>114,454</u>	<u>-</u>
Net cash provided by investing activities	<u>140,469</u>	<u>1,186</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, 2017

	<i>Enterprise Funds</i>			
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Marina Fund</i>	<i>Nonmajor Cartier Park Campground Fund</i>
Net increase (decrease) in cash and cash equivalents	513,982	263,983	50,920	36,201
Cash and cash equivalents, beginning of year	1,281,928	939,633	502,483	185,316
Cash and cash equivalents, end of year	<u>\$ 1,795,910</u>	<u>\$ 1,203,616</u>	<u>\$ 553,403</u>	<u>\$ 221,517</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 598,422	\$ 468,820	\$ (54,254)	\$ 34,477
Adjustments:				
Depreciation	268,781	268,240	94,800	5,661
Change in assets and liabilities:				
Accounts receivable	(83,338)	(21,803)	127	-
Due from other governments	-	-	-	-
Inventory	(3,474)	(3,489)	(3,183)	-
Prepaid expenses	(428)	(5,220)	(213)	(946)
Accounts payable	(10,550)	34,735	4,952	136
Accrued expenses	2,507	4,151	56	37
Deposits payable	-	(1,000)	-	-
Unearned revenue	-	-	12,671	-
Compensated absences payable	(1,136)	(2,583)	356	376
Net pension liability and related deferred amounts	(132,030)	(202,446)	(8,802)	-
Net OPEB obligation	(238)	(408)	(42)	-
Net cash provided (used) by operating activities	<u>\$ 638,516</u>	<u>\$ 538,997</u>	<u>\$ 46,468</u>	<u>\$ 39,741</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, 2017

	<u>Enterprise Funds</u>	<u>Internal Service Funds</u>
	<u>Total</u>	
Net increase (decrease) in cash and cash equivalents	865,086	54,790
Cash and cash equivalents, beginning of year	<u>2,909,360</u>	<u>252,084</u>
Cash and cash equivalents, end of year	<u>\$ 3,774,446</u>	<u>\$ 306,874</u>
 Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 1,047,465	\$ (6,333)
Adjustments:		
Depreciation	637,482	259,525
Change in assets and liabilities:		
Accounts receivable	(105,014)	(60)
Due from other governments	-	(1,173)
Inventory	(10,146)	15,964
Prepaid expenses	(6,807)	239
Accounts payable	29,273	(18,962)
Accrued expenses	6,751	1,996
Deposits payable	(1,000)	-
Unearned revenue	12,671	-
Compensated absences payable	(2,987)	(314)
Net pension liability and related deferred amounts	(343,278)	(52,812)
Net OPEB obligation	<u>(688)</u>	<u>-</u>
Net cash provided (used) by operating activities	<u>\$ 1,263,722</u>	<u>\$ 198,070</u>

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

CITY OF LUDINGTON

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

December 31, 2017

	<i>Police Pension Trust Fund</i>	<i>Police Greenwood Fund</i>	<i>Agency Funds</i>
Assets:			
Cash and cash equivalents	\$ 85,304	\$ 52,119	\$ 789,242
Investments	5,517,712	-	4,160,162
Taxes receivable	320,175	-	-
Accrued interest receivable	37	-	-
Total assets	<u>5,923,228</u>	<u>52,119</u>	<u>\$ 4,949,404</u>
Liabilities:			
Accounts payable	4,639	-	\$ 43,361
Undistributed tax collections	-	-	<u>4,906,043</u>
Total liabilities	<u>4,639</u>	<u>-</u>	<u>\$ 4,949,404</u>
Deferred inflows of resources:			
Unavailable revenue - property taxes	<u>320,175</u>	<u>-</u>	
Net position:			
Restricted	-	52,119	
Held in trust for pension benefits	<u>5,598,414</u>	<u>-</u>	
Total net position	<u>\$ 5,598,414</u>	<u>\$ 52,119</u>	

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

CITY OF LUDINGTON

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

Year Ended December 31, 2017

	<i>Police Pension Trust Fund</i>	<i>Police Greenwood Fund</i>
Additions:		
Property taxes	\$ 304,761	\$ -
Employee contributions	54,288	-
State grants	13,254	-
Investment income	<u>578,242</u>	<u>389</u>
Total additions	<u>950,545</u>	<u>389</u>
Deductions:		
Benefit payments	403,808	5,950
Fees and other	<u>6,453</u>	<u>-</u>
Total deductions	<u>410,261</u>	<u>5,950</u>
Net increase (decrease)	540,284	(5,561)
Net position, beginning of year	<u>5,058,130</u>	<u>57,680</u>
Net position, end of year	<u><u>\$ 5,598,414</u></u>	<u><u>\$ 52,119</u></u>

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

NOTES TO FINANCIAL STATEMENTS

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity:

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

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

Blended Component Unit:

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

Discretely Presented Component Unit:

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

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Report Presentation:

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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.

The City reports the following major governmental funds:

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.

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

The City reports the following major proprietary funds:

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

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

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

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.

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.

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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 types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method; bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed at the time they are incurred. In the fund financial statements, governmental fund types recognize bond issuances as an “other financing source,” as well as bond premiums and discounts. The General Fund and debt service funds are generally used to liquidate long-term debt of the governmental debt.

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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 – Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the City that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes, but do not meet the criteria to be classified as committed. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Other classifications of fund balance include: nonspendable fund balance, which are amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact; restricted fund balance, which are amounts that have constraints placed on their use by an external party or constitutional provisions or enabling legislation (grants, contributions, specific fee mandates); and unassigned fund balance, which are amounts that are available for any purpose. The General Fund is the only fund that reports a positive unassigned fund balance amount. However, unassigned balances also include negative balances in other governmental funds.

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 2017 include property taxes levied in 2016 but appropriated by a City ordinance to finance 2017 operations. Property taxes levied in 2017 for the operations of 2018 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, 2017. In 2016, the City levied property taxes on an assessed property tax value of \$271,722,019 (exclusive of any Michigan Tax Tribunal or Board of Review adjustments). Taxes levied consisted of 14.3437 mills per the City's charter, with 11.5675 mills allocated for operating purposes and 2.7762 mills allocated for refuse services. There were also 1.1501 mills levied for police pension. The DDA levied property taxes on an assessed property tax value of \$27,144,680 (exclusive of any Michigan Tax Tribunal or Board of Review adjustments). Taxes levied consisted of 1.6080 mills.

Pension Costs – The City offers a defined benefit pension plan to its employees. The City records a net pension liability for the difference between the total pension liability calculated by the actuary and the pension plan's fiduciary net position. For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plan and additions to/deductions from the pension plan's fiduciary net position have been determined on the same basis as they are reported by the pension plan. 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.

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.

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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. 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.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information:

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

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY, CONTINUED

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

Excess of Expenditures over Appropriations in Budgeted Funds:

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

State Construction Code Act:

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

Cumulative surplus at January 1, 2017		\$	-
Current year building permit revenue			33,020
Related expenses:			
Direct costs	19,814		
Indirect costs	28,895		48,709
			<u> </u>
Cumulative surplus at December 31, 2017		\$	<u> </u>

NOTE 3: DEPOSITS AND INVESTMENTS

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

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 3: DEPOSITS AND INVESTMENTS, CONTINUED

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.

Summary of Deposit and Investment Balances:

The following is a reconciliation of deposit and investment balances as of December 31, 2017:

Statement of Net Position:

Cash and cash equivalents (including restricted):

Primary Government	\$ 5,892,635
Component Unit	191,367

Investments:

Primary Government	1,430,842
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Statement of Fiduciary Net Position:

Cash and cash equivalents	926,665
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Investments	<u>9,677,874</u>
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Total	<u>\$ 18,119,383</u>
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Deposits and Investments:

Bank deposits	\$ 7,009,317
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Investments:

Michigan CLASS	5,338,765
U.S. Treasury	199,468
Bank deposits	210,582
Mutual funds - equity index	4,418,294
Corporate bonds	677,083
Mortgage-backed securities	264,524

Cash on hand	<u>1,350</u>
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Total	<u>\$ 18,119,383</u>
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Custodial Credit Risk – 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 \$6,980,624 of bank deposits (certificates of deposit, checking, and savings accounts), of which \$1,250,000 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.

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 3: DEPOSITS AND INVESTMENTS, CONTINUED

Interest Rate Risk - Investments: Interest rate risk is the risk that the value of fixed income investments will decrease as a result of a rise in interest rates. State law limits the allowable investments and the maturities of some of the allowable investments. The City's investment policy does not have specific limits in excess of State law on investment maturities as a means on managing its exposure to fair value losses arising from increasing interest rates. At year end, the average maturities of fixed income security investments are as follows:

<i>Investment Type</i>	<i>Market Value</i>	<i>Less than 1 Year</i>	<i>1 to 2 Years</i>	<i>2 to 3 Years</i>	<i>7 to 8 Years</i>
Michigan CLASS	\$ 5,338,765	\$ 5,338,765	\$ -	\$ -	\$ -
U.S. Treasury	199,468	199,468	-	-	-
Bank deposits	210,582	210,582	-	-	-
Mutual funds - equity index	4,418,294	4,418,294	-	-	-
Corporate bonds	677,083	-	-	677,083	-
Mortgage-backed securities	264,524	-	-	-	264,524
Total	<u>\$ 11,108,716</u>	<u>\$ 10,167,109</u>	<u>\$ -</u>	<u>\$ 677,083</u>	<u>\$ 264,524</u>

Credit Risk – Investments: State law limits investments to specific government securities, certificates of deposit and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools. The City's investment policy does not have specific limits in excess of state law on investment credit risk. At year end, the credit quality ratings of fixed income securities are as follow:

<i>Investment Type</i>	<i>Market Value</i>	<i>Rating</i>	<i>Rating Organization</i>
Michigan CLASS	\$ 5,338,765	AAAm	S&P
U.S. Treasury	199,468	Aaa	Moody's
Bank deposits	210,582	Not rated	
Mutual funds - equity index	4,418,294	Not rated	
Corporate bonds	677,083	Aaa to Baa	Moody's
Mortgage-backed securities	264,524	Aaa	Moody's
Total	<u>\$ 11,108,716</u>		

Custodial Credit Risk – Investments – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the City does not have a policy for investment custodial credit risk. At year end, none of the City's investments were subject to custodial credit risk due to one of the following:

- Investments were part of an insured pool
- Investments were book-entry only in the name of the City and were fully insured
- Investments were part of a mutual fund
- Investments were held by an agent in the City's name

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

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, 2017 the City had these accounts established and had restricted cash and cash equivalents as follows:

	<i>Restricted Cash and Cash Equivalents</i>
Sewer Fund:	
USDA Bond reserve	\$ 17,200
USDA RRI reserve	78,250
Construction improvements	697
Equipment replacement	307,005
Other bond reserve	280,000
Water Fund:	
USDA Bond reserve	81,000
USDA RRI reserve	28,868
Construction improvements	485
Equipment replacement	503,073
	<u>\$ 1,296,578</u>

NOTE 5: FAIR VALUE MEASUREMENTS

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below. In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The City's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability. The City has the following recurring fair value measurement as of December 31, 2017:

Michigan CLASS investment pool in the amount of \$5,338,765 is valued at Level 2 inputs. The City did not have any investments valued with Level 1 or Level 3 inputs at December 31, 2017.

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 6: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017 was as follows:

	<u>January 1, 2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>December 31, 2017</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 214,780	\$ 45,974	\$ (47,500)	\$ 213,254
Capital assets being depreciated:				
Buildings and improvements	7,694,547	145,219	-	7,839,766
Furniture and equipment	112,259	-	(5,142)	107,117
Infrastructure	6,811,182	-	-	6,811,182
Land and site improvements	1,276,869	4,500	-	1,281,369
Machinery and equipment	2,769,542	327,551	(373,787)	2,723,306
Total capital assets being depreciated	<u>18,664,399</u>	<u>477,270</u>	<u>(378,929)</u>	<u>18,762,740</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,526,820)	(155,760)	-	(1,682,580)
Furniture and equipment	(66,526)	(19,628)	5,142	(81,012)
Infrastructure	(1,343,260)	(274,479)	-	(1,617,739)
Land and site improvements	(267,730)	(35,532)	-	(303,262)
Machinery and equipment	(1,824,918)	(253,888)	373,787	(1,705,019)
Total accumulated depreciation	<u>(5,029,254)</u>	<u>(739,287)</u>	<u>378,929</u>	<u>(5,389,612)</u>
Capital assets being depreciated, net	<u>13,635,145</u>	<u>(262,017)</u>	<u>-</u>	<u>13,373,128</u>
Governmental activities, capital assets, net	<u>\$ 13,849,925</u>	<u>\$ (216,043)</u>	<u>\$ (47,500)</u>	<u>\$ 13,586,382</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 880,826	\$ -	\$ -	\$ 880,826
Construction in progress	1,724,953	10,503,776	-	12,228,729
Total capital assets not being depreciated	<u>2,605,779</u>	<u>10,503,776</u>	<u>-</u>	<u>13,109,555</u>
Capital assets being depreciated:				
Buildings and improvements	4,249,934	6,000	-	4,255,934
Furniture and equipment	107,231	-	(59,371)	47,860
Infrastructure	148,601	-	-	148,601
Land improvements	1,627,710	-	(92,649)	1,535,061
Machinery and equipment	284,075	549,861	(72,218)	761,718
Sewer systems and plants	12,787,985	-	(174,549)	12,613,436
Water systems and plants	7,622,968	174,196	(5,508)	7,791,656
Total capital assets being depreciated	<u>26,828,504</u>	<u>730,057</u>	<u>(404,295)</u>	<u>27,154,266</u>

continued

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 6: CAPITAL ASSETS, CONTINUED

	<i>January 1, 2017</i>	<i>Additions</i>	<i>Retirements</i>	<i>December 31, 2017</i>
Less accumulated depreciation for:				
Buildings and improvements	(2,354,227)	(83,398)	-	(2,437,625)
Furniture and equipment	(94,906)	(3,246)	59,371	(38,781)
Infrastructure	(10,690)	(1,700)	-	(12,390)
Land improvements	(766,968)	(62,312)	92,649	(736,631)
Machinery and equipment	(197,237)	(63,111)	72,218	(188,130)
Sewer systems and plants	(5,000,334)	(229,466)	174,549	(5,055,251)
Water systems and plants	(2,997,978)	(194,249)	5,508	(3,186,719)
Total accumulated depreciation	<u>(11,422,340)</u>	<u>(637,482)</u>	<u>404,295</u>	<u>(11,655,527)</u>
Capital assets being depreciated, net	<u>15,406,164</u>	<u>92,575</u>	<u>-</u>	<u>15,498,739</u>
Business-type activities, capital assets, net	<u>\$ 18,011,943</u>	<u>\$ 10,596,351</u>	<u>\$ -</u>	<u>\$ 28,608,294</u>
Component unit:				
Capital assets being depreciated:				
Buildings and improvements	\$ 7,666	\$ -	\$ -	\$ 7,666
Land improvements	10,672	-	-	10,672
Machinery and equipment	<u>4,700</u>	<u>-</u>	<u>-</u>	<u>4,700</u>
Total capital assets being depreciated	<u>23,038</u>	<u>-</u>	<u>-</u>	<u>23,038</u>
Less accumulated depreciation for:				
Buildings and improvements	(511)	(307)	-	(818)
Land improvements	(978)	(213)	-	(1,191)
Machinery and equipment	<u>(3,525)</u>	<u>(470)</u>	<u>-</u>	<u>(3,995)</u>
Total accumulated depreciation	<u>(5,014)</u>	<u>(990)</u>	<u>-</u>	<u>(6,004)</u>
Component unit, capital assets, net	<u>\$ 18,024</u>	<u>\$ (990)</u>	<u>\$ -</u>	<u>\$ 17,034</u>

Depreciation expense was charged to various functions as follows:

	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Component Unit</i>
General government	\$ 76,507	\$ -	\$ -
Public safety	20,468	-	-
Public works	254,974	-	-
Health and welfare	2,421	-	-
Community and economic development	-	-	990
Recreation and culture	125,392	-	-
Internal service funds	259,525	-	-
Sewer	-	268,781	-
Water	-	268,240	-
Marina	-	94,800	-
Cartier Park Campground	<u>-</u>	<u>5,661</u>	<u>-</u>
	<u>\$ 739,287</u>	<u>\$ 637,482</u>	<u>\$ 990</u>

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 7: 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, 2017 is summarized as follows:

	<u>January 1,</u> <u>2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31,</u> <u>2017</u>	<i>Due</i> <i>Within</i> <i>One Year</i>
Governmental Activities:					
<i>General Obligation Bonds and Notes:</i>					
2005 Building Authority Refunding Bonds for \$2,135,000, with annual payments ranging from \$265,000-285,000 at 3.90-4.00% interest; Maturing August 1, 2019	\$ 800,000	\$ -	\$ (250,000)	\$ 550,000	\$ 265,000
2013 Copier/Printer Contract Payable for \$89,160, with monthly payments of \$1,486 at 0.00% interest; Maturing June 2018	24,510	-	(23,395)	1,115	1,115
<i>Other liabilities:</i>					
Compensated absences	<u>103,341</u>	<u>16,572</u>	<u>(5,656)</u>	<u>114,257</u>	<u>-</u>
Total governmental activities	<u>\$ 927,851</u>	<u>\$ 16,572</u>	<u>\$ (279,051)</u>	<u>\$ 665,372</u>	<u>\$ 266,115</u>
Business-type activities:					
<i>Revenue Bonds:</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 October 1, 2027	\$ 885,000	\$ -	\$ (75,000)	\$ 810,000	\$ 75,000
2016 Water Supply System Junior Lien Revenue Bonds for \$9,817,000, with annual payments ranging from \$191,000-316,000 at 1.375% interest; Maturing October 1, 2056	1,125,000	6,304,000	(192,000)	7,237,000	188,000
2017 Water Supply System Junior Lien Revenue Bonds for \$2,330,000, with annual payments ranging from \$40,000-80,000 at 1.875% interest; Maturing October 1, 2056	-	2,151,783	(40,000)	2,111,783	40,000

continued

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS December 31, 2017

NOTE 7: LONG-TERM LIABILITIES, CONTINUED

	<u>January 1, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31, 2017</u>	<u>Due Within One Year</u>
2017 Sewage Disposal System Junior Lien Revenue Bonds for \$2,146,000, with annual payments ranging from \$32,000-83,000 at 2.500% interest; Maturing October 1, 2056	-	1,962,498	(38,000)	1,924,498	32,000
<i>Other liabilities:</i>					
Compensated absences	47,648	733	(3,720)	44,661	-
Total business-type activities	<u>\$2,057,648</u>	<u>\$ 10,419,014</u>	<u>\$ (348,720)</u>	<u>\$ 12,127,942</u>	<u>\$ 335,000</u>

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

<i>Year Ended</i> <u>December 31,</u>	<u>Governmental Activities</u>			<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 266,115	\$ 21,735	\$ 287,850	\$ 335,000	\$ 241,144	\$ 576,144
2019	285,000	11,400	296,400	339,000	235,790	574,790
2020	-	-	-	347,000	230,372	577,372
2021	-	-	-	356,000	224,816	580,816
2022	-	-	-	360,000	219,104	579,104
2023-2027	-	-	-	1,880,000	1,007,140	2,887,140
2028-2032	-	-	-	1,580,000	865,158	2,445,158
2033-2037	-	-	-	1,715,000	733,572	2,448,572
2038-2042	-	-	-	1,856,000	589,920	2,445,920
2043-2047	-	-	-	2,013,000	433,706	2,446,706
2048-2052	-	-	-	2,178,000	263,372	2,441,372
2053-2056	-	-	-	1,874,000	78,044	1,952,044
	<u>\$ 551,115</u>	<u>\$ 33,135</u>	<u>\$ 584,250</u>	\$ 14,833,000	<u>\$ 5,122,138</u>	<u>\$ 19,955,138</u>
Less: Amount not drawn yet				<u>(2,749,719)</u>		
				<u>\$ 12,083,281</u>		

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 8: DISAGGREGATED RECEIVABLE AND PAYABLE BALANCES

Receivable and payable balances for the year ended December 31, 2017 were as follows:

	<i>Primary Government</i>			<i>Component Unit</i>
	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Total</i>	
Receivables:				
Property taxes	\$ 4,479,433	\$ -	\$ 4,479,433	\$ 117,892
Accounts	62,159	998,674	1,060,833	1,507
Special assessments	4,785	-	4,785	-
Notes	5,207	-	5,207	-
Accrued interest	3,406	1,448	4,854	74
Intergovernmental	<u>282,128</u>	<u>1,321,140</u>	<u>1,603,268</u>	<u>-</u>
Total receivables	<u>\$ 4,837,118</u>	<u>\$ 2,321,262</u>	<u>\$ 7,158,380</u>	<u>\$ 119,473</u>
Accounts payable and accrued expenses:				
Accounts	\$ 226,033	\$ 1,269,291	\$ 1,495,324	\$ 9,696
Payroll liabilities	112,972	41,741	154,713	1,798
Deposits payable	2,115	6,250	8,365	-
Accrued interest	9,056	60,287	69,343	-
Intergovernmental	<u>9,261</u>	<u>-</u>	<u>9,261</u>	<u>-</u>
Total accounts payable and accrued expenses	<u>\$ 359,437</u>	<u>\$ 1,377,569</u>	<u>\$ 1,737,006</u>	<u>\$ 11,494</u>

NOTE 9: INTERFUND TRANSFERS

The composition of interfund transfers at December 31, 2017 is as follows reported in the fund financial statements:

<i>Funds Transferred From</i>	<i>Funds Transferred To</i>	<i>Amount</i>
General Fund	Recreation Fund	\$ 42,000
General Fund	Building Authority Bond Fund	281,235
Major Street Fund	Local Street Fund	129,200
Cemetery Capital Improvement Fund	General Fund	<u>1,864</u>
		<u>\$ 454,299</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

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 10: RISK MANAGEMENT

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

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

NOTE 11: EMPLOYEE RETIREMENT BENEFIT COMMITMENTS – GENERAL

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 City's defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The City 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.

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 11: EMPLOYEE RETIREMENT BENEFIT COMMITMENTS – GENERAL, CONTINUED

Benefits Provided – The following are the benefits provided from the December 31, 2016 valuation.

	<u>Division 01 - General: Closed, linked to Division 02</u>	<u>Division 02 - General after 6/11: Open, linked to Division 01</u>
Benefit Multiplier:	Bridged Benefit: 2.50% Multiplier (80% max) Frozen FAC; to 2.25% Multiplier (80% max)	1.70% Multiplier (no max)
Bridged Benefit Date	12/31/2016	
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

Employees covered by benefit terms – At the December 31, 2016 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits:	65
Inactive employees entitled to but not yet receiving benefits:	5
Active employees:	<u>50</u>
Total	<u><u>120</u></u>

Contributions – Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, MERS retains an independent actuary to determine the annual contribution. The City 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 City may establish contribution rates to be paid by its covered employees.

City required contributions, for the current year, were 5.36% as a percentage of payroll or \$55,720 monthly based on valuation payroll. Amounts are based on the valuation payroll from the December 31, 2015 actuarial valuation.

Net Pension Liability – The City’s net pension liability reported at December 31, 2017 was measured as of December 31, 2017. The total pension liability as of December 31, 2017 was calculated by the roll-forward method based on the December 31, 2016 actuarial valuation.

Actuarial assumptions – The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement: Inflation: 2.5%; Salary Increases: 3.75% in the long-term; Investment rate of return: 7.75%, net of investment and administrative expenses including inflation.

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 11: EMPLOYEE RETIREMENT BENEFIT COMMITMENTS – GENERAL, CONTINUED

Although no specific price inflation assumptions are needed for the valuation, the 2.5% long-term wage inflation assumption would be consistent with a price inflation of 3%-4%. Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend.

The actuarial assumptions used in the December 31, 2016 valuation were based on the results of the most recent actuarial experience study of 2009-2013.

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.

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%. The projection of cash flows used to determine the discount rate assumes that City and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for the City. 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:

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 11: EMPLOYEE RETIREMENT BENEFIT COMMITMENTS – GENERAL, CONTINUED

	<i>Increase (Decrease)</i>		
	<i>Total Pension Liability</i>	<i>Plan Fiduciary Net Position</i>	<i>Net Pension Liability</i>
Balances at 12/31/16	\$ 20,461,290	\$ 12,527,186	\$ 7,934,104
Service cost	272,153	-	272,153
Interest on total pension liability	1,594,693	-	1,594,693
Changes in benefit terms	(1,351,475)	-	(1,351,475)
Difference between expected and actual experience	39,069	-	39,069
Changes in assumptions	-	-	-
Employer contributions	-	671,574	(671,574)
Employee contributions	-	31,979	(31,979)
Net investment income	-	1,627,991	(1,627,991)
Benefit payments, including employee refunds	(1,327,415)	(1,327,415)	-
Administrative expenses	-	(25,820)	25,820
Other changes	10,529	-	10,529
Net changes	(762,446)	978,309	(1,740,755)
Balances at 12/31/17	<u>\$ 19,698,844</u>	<u>\$ 13,505,495</u>	<u>\$ 6,193,349</u>

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

Governmental activities	\$ 3,637,100
Business-type activities	<u>2,556,249</u>
	<u>\$ 6,193,349</u>

Sensitivity of the net pension liability to changes in the discount rate – The following presents the net pension liability of the City, calculated using the discount rate of 8%, as well as what the City's net pension liability would be using a discount rate that is 1 percentage point lower (7%) or 1 percentage point higher (9%) than the current rate.

	<i>1% Decrease Rate 7%</i>	<i>Current Rate 8%</i>	<i>1% Increase Rate 9%</i>
Net pension liability	\$ -	\$ 6,193,349	\$ -
Change in net pension liability as of 12/31/17	<u>2,030,061</u>	<u>-</u>	<u>(1,734,456)</u>
	<u>\$ 8,223,410</u>	<u>\$ 6,193,349</u>	<u>\$ 4,458,893</u>

Note: The current discount rate shown for GASB 68 purposes is higher than the MERS assumed rate of return. This is because for GASB purposes, the discount rate must be gross of administrative expenses, whereas for funding purposes, it is net of administrative expenses.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – For the year ended December 31, 2017, the City recognized a negative pension expense of (\$208,626).

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 11: EMPLOYEE RETIREMENT BENEFIT COMMITMENTS – GENERAL, CONTINUED

The City reported deferred outflows and inflows of resources related to pensions are from the following sources:

	<i>Deferred Outflows of Resources</i>	<i>Deferred Inflows of Resources</i>
Differences in experiences	\$ -	\$ 70,731
Changes in assumptions	508,650	-
Net difference between projected and actual earnings on pension plan investments	-	267,860
	<u>\$ 508,650</u>	<u>\$ 338,591</u>

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

	<i>Deferred Outflows of Resources</i>	<i>Deferred Inflows of Resources</i>
Governmental activities	\$ 303,410	\$ 218,021
Business-type activities	205,240	120,570
	<u>\$ 508,650</u>	<u>\$ 338,591</u>

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows.

<i>Year Ended</i>	<i>Amount</i>
2018	\$ 247,821
2019	247,821
2020	(195,222)
2021	(130,361)

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. 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.

NOTE 12: EMPLOYEE RETIREMENT BENEFIT COMMITMENTS – POLICE

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.

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 12: EMPLOYEE RETIREMENT BENEFIT COMMITMENTS – POLICE, CONTINUED

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, 2017, pension plan membership consisted of the following:

Retirees and beneficiaries	13
Active plan members	14
Total	<u>27</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, 2017, the City made contributions of \$304,761 and the police employees contributed \$54,288. The City also received \$13,254 from the Local Community Stabilization Authority for reimbursement of personal property tax loss that was contributed to the plan. The total City contributions for the year were \$318,015.

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, 2017

NOTE 12: 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, 2017:

<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, 2017, the recognized rate of investment return based on the smoothed market value was 6.11% (less than the assumed 7.00%).

Net Pension Liability:

The components of the net pension liability at December 31, 2017, were as follows:

Total pension liability	\$ 7,661,736
Plan fiduciary net position	<u>(5,598,414)</u>
Net pension liability	<u>\$ 2,063,322</u>
Plan fiduciary net position as a percentage percentage of the total pension liability	73.07%
Covered payroll	\$ 933,791
Net pension liability as a percentage of of covered payroll	221.0%

Actuarial assumptions – The total pension liability was determined based on the annual actuarial valuation as of December 31, 2017. 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 7.00%. 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 7.00% 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 Statement 68.

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 12: 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 7.00%, as well as what the City’s net pension liability would be if it were calculated using a discount rate that is 1% lower (6.00%) or 1% higher (8.00%) than the current rate:

	<u>1% Decrease Rate 6.00%</u>	<u>Current Rate 7.00%</u>	<u>1% Increase Rate 8.00%</u>
Net pension liability	\$ 2,991,853	\$ 2,063,322	\$ 1,283,387

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – For the year ended December 31, 2017, the City recognized pension expense of \$331,857. The City 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 between expected and actual experience	\$ -	\$ 60,208
Changes in assumptions	-	67,220
Net difference between projected and actual earnings on pension plan investments	-	53,606
	<u>\$ -</u>	<u>\$ 181,034</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	\$ -	\$ 181,034

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows.

<u>Year Ended</u>	<u>Amount</u>
2018	\$ 41,521
2019	41,521
2020	(24,488)
2021	(250,440)
2022	10,852

NOTE 13: OTHER POSTEMPLOYMENT BENEFITS

Plan Description – The City provides retiree healthcare benefits to eligible employees upon retirement in accordance with labor contracts and other City personnel policies.

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 13: OTHER POSTEMPLOYMENT BENEFITS, CONTINUED

General – Non-Union and SEIU Union Hired Before June 1, 2014 – Retirement eligibility is age 55 with 15 or more years of service or age 60 with 10 or more years of service. The benefit amount is paid until the retiree attains the earlier of Medicare eligibility age or age 67. No spouse continuation at death of retiree. If service years at retirement are 20-25 years, the City will pay \$100, if 26-30 service years the City will pay \$150, and if service years are 30 or more the City will pay \$200.

Hired on or After June 1, 2014 – The City pays a lump sum of \$750 into MERS Health Care Savings Plan when employee reaches 10 years of service.

General – City Clerk and Retired Treasurer – Retirement eligibility is age 55 with 15 or more years of service or age 60 with 10 or more years of service. If retiree has 25 years of service at retirement, the benefit amount is \$250 per month for life, and continues to the eligible surviving spouse. The retired City Manager receives \$200 per month for life.

Police Union – Retirement eligibility is any age with 25 years of service or age 60. The benefit amount is based on the date retired and is payable for life. The benefit is 50% of the premium, up to a maximum of \$100 if date of retirement is 1-1-1989 through 12-31-1993 and \$200 after 12-31-1993.

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 \$44,558.

Annual Required Contribution Funding – As of January 1, 2016, 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, 2016 calculation, the entry age actuarial cost method was used. The actuarial assumptions included a 4 percent investment rate of return. The UAAL, for purposes of calculating the annual required contribution (ARC), is being amortized as a level percent of payroll over 30 years. The computed annual required contribution and actual funding are summarized as follows:

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS December 31, 2017

NOTE 13: OTHER POSTEMPLOYMENT BENEFITS, CONTINUED

For the year ended December 31, 2017:

Annual required contribution (recommended)	\$ 76,164
Interest on the prior year's net OPEB obligation	8,632
Less adjustment to the annual required contribution	<u>(12,722)</u>
Annual OPEB cost	72,074
Amounts contributed:	
Payments of current premiums	(44,558)
Advance funding	<u>-</u>
Increase in net OPEB obligation	27,516
OPEB obligation, beginning of year	<u>215,946</u>
OPEB obligation, end of year	<u>\$ 243,462</u>

The OPEB obligation is recorded as follows:

Governmental activities	\$ 228,698
Business-type activities	<u>14,764</u>
Total	<u>\$ 243,462</u>

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

<i>Year Ending</i>	<i>Actuarial Valuation Date</i>	<i>Annual OPEB Cost</i>	<i>Contribution</i>	<i>Percentage Contributed</i>	<i>Net OPEB Obligation</i>
12/31/17	1/1/16	\$ 72,074	\$ 44,558	62%	\$ 243,462
12/31/16	1/1/16	69,655	47,168	68%	215,946
12/31/15	1/1/13	68,224	46,524	68%	193,459

Funding Progress – As of January 1, 2016, which is the most recent actuarial valuation, the actuarial accrued liability for benefits was \$843,173, all of which was unfunded. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

NOTE 14: FUND BALANCES

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

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 14: FUND BALANCES, CONTINUED

	<i>General Fund</i>	<i>Nonmajor Funds</i>	<i>Total</i>
Fund balances:			
Nonspendable:			
Inventory	\$ 27,633	\$ 40,238	\$ 67,871
Prepaid expenditures	111,910	8,760	120,670
Long-term receivables	-	5,207	5,207
Restricted for:			
Streets	-	995,540	995,540
Senior center activities	-	44,950	44,950
Debt service	-	2	2
Recreation activities	-	37,117	37,117
Rental inspection	-	15,799	15,799
Downtown building rehab	-	92,525	92,525
Cemetery capital improvements	-	227,166	227,166
Unassigned	<u>1,801,529</u>	<u>-</u>	<u>1,801,529</u>
Total fund balances	<u>\$ 1,941,072</u>	<u>\$ 1,467,304</u>	<u>\$ 3,408,376</u>

NOTE 15: TAX ABATEMENTS

City Abatements – Industrial Facilities Exemption:

The City entered into property tax abatement agreements with local businesses under the Plant Rehabilitation and Industrial Development Districts Act, (known as the Industrial Facilities Exemption) PA 198 of 1974, as amended. PA 198 of 1974, as amended is designed to maintain existing jobs and create new job opportunities for residents by providing substantial property tax incentives to industry to renovate and expand aging manufacturing plants or to build new plants. An Industrial Facilities Exemption (IFE) certificate entitles the facility to exemption from ad valorem real and/or personal property taxes for a term of 1-12 years as determined by the Village. The IFT on a new plant and non-industrial property, such as some high-tech personal property, is computed at half the local property tax millage rate. This amounts to a reduction in property taxes of approximately 50%.

The City Council evaluates all PA 198 applications to determine that a good public purpose for the City would be served, that is, an economic growth, expanded tax base, and job creation. The City has the right to revoke the exemption and the recipient would be responsible to pay to the affecting taxing units an amount equal to those taxes it would have paid had the abatement not been in effect if the recipient is determined to be in violation of the provisions of the written agreement, such as insufficient job creation and/or investment.

For the year ended December 31, 2017, the City abated property tax revenues totaling approximately \$13,000 under this program.

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 15: TAX ABATEMENTS, CONTINUED

Mason County Brownfield Redevelopment Authority Abatements:

PA 381 of 1996, as amended authorized municipalities to create a brownfield redevelopment authority to promote the revitalization, redevelopment, and reuse of certain property, including, but not limited to, tax reverted, blighted, or functionally obsolete property. Individual brownfield plans must be approved by the Mason County Brownfield Redevelopment Authority, the Mason County Board of Commissioners, and the City Council.

For the year ended December 31, 2017 there was approximately \$62,000 of property tax revenue abated under this program.

NOTE 16: RESTRICTED NET POSITION

The governmental activities statement of net position reports \$1,087,389 of restricted net position, of which \$1,041,409 is restricted by Act 51 enabling legislation.

NOTE 17: SUBSEQUENT EVENTS

Subsequent to year end, the City authorized the issuance of \$1,351,000 Water Supply System Bonds to finance improvements to the City's water supply system. The loan is a 40 year loan bearing interest at 2.25%.

The City also authorized the issuance of \$2,020,000 Sewage Disposal System Bonds to finance improvements to the City's sewage disposal system. The loan is a 40 year loan bearing interest at 2.75%.

The City also authorized the issuance of \$1,200,000 General Obligation Limited Tax Capital Improvement Bonds, to acquire, construct and equip a new fire station. The loan is a 40 year loan bearing interest at 3.25%.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LUDINGTON

SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS FUNDING PROGRESS

Schedule of Other Postemployment Benefits Funding Progress:

<u>Actuarial Valuation Date</u>	<u>1/1/16</u>	<u>1/1/13</u>	<u>1/1/10</u>
Actuarial Value of Assets	\$ -	\$ -	\$ -
Actuarial Accrued Liability (AAL)	843,173	783,757	959,967
Unfunded AAL (UAAL)	843,173	783,757	959,967
Funded Ratio	0%	0%	0%
Covered Payroll	N/A	N/A	N/A
UAAL as a percentage of covered payroll	N/A	N/A	N/A

CITY OF LUDINGTON

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Service cost	\$ 272,153	\$ 268,117	\$ 274,630
Interest on total pension liability	1,594,693	1,534,351	1,488,915
Changes in benefit terms	(1,351,475)	-	-
Difference between expected and actual experience	39,069	(200,065)	-
Changes in assumptions	-	1,017,300	-
Benefit payments, including employee refunds	(1,327,415)	(1,224,817)	(1,170,478)
Other changes	10,529	(10,137)	(11,900)
Net change in total pension liability	(762,446)	1,384,749	581,167
Total pension liability - beginning	20,461,290	19,076,541	18,495,374
Total pension liability - ending	\$ 19,698,844	\$ 20,461,290	\$ 19,076,541
Plan fiduciary net position			
Contributions - employer	\$ 671,574	\$ 666,237	\$ 595,505
Contributions - employee	31,979	23,690	18,451
Net investment income (loss)	1,627,991	1,320,810	(183,641)
Benefit payments, including employee refunds	(1,327,415)	(1,224,817)	(1,170,478)
Administrative expenses	(25,820)	(26,086)	(27,072)
Net change in plan fiduciary net position	978,309	759,834	(767,235)
Total plan fiduciary net position - beginning	12,527,186	11,767,352	12,534,587
Total plan fiduciary net position - ending	\$ 13,505,495	\$ 12,527,186	\$ 11,767,352
City's net pension liability	\$ 6,193,349	\$ 7,934,104	\$ 7,309,189
Plan fiduciary net position as a percentage of the total pension liability	68.56%	61.22%	61.68%
Covered employee payroll	\$ 2,153,157	\$ 2,120,040	\$ 2,156,320
City's net pension liability as a percentage of covered employee payroll	287.64%	374.24%	338.97%

Note: GASB Statement No. 68 was implemented for year ended December 31, 2015 and does not require retroactive implementation. Data will be added as information is available until 10 years of such data is available.

CITY OF LUDINGTON

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability				
Service cost	\$ 190,509	\$ 242,869	\$ 191,449	\$ 176,256
Interest	500,403	472,965	442,143	403,626
Changes in benefit terms	-	-	-	-
Differences between expected and actual experience	119,371	(225,074)	(15,652)	343,823
Changes of assumptions	-	(1,137,187)	1,381,809	-
Benefit payments, including refunds of member contributions	(403,808)	(404,702)	(373,903)	(340,646)
Net change in total pension liability	406,475	(1,051,129)	1,625,846	583,059
Total pension liability - beginning	7,255,261	8,306,390	6,680,544	6,097,485
Total pension liability - ending	<u>\$ 7,661,736</u>	<u>\$ 7,255,261</u>	<u>\$ 8,306,390</u>	<u>\$ 6,680,544</u>
Plan fiduciary net position				
Contributions - employer	\$ 318,015	\$ 311,720	\$ 306,876	\$ 297,187
Contributions - member	54,288	53,618	53,042	55,438
Net investment income (loss)	578,242	284,547	(3,610)	353,818
Benefit payments, including refunds of member contributions	(403,808)	(404,702)	(373,903)	(334,946)
Administrative expense	(6,453)	(7,796)	(66,783)	(60,213)
Other	-	(130)	-	-
Net change in plan fiduciary net position	540,284	237,257	(84,378)	311,284
Plan fiduciary net position - beginning	5,058,130	4,820,873	4,905,251	4,593,967
Plan fiduciary net position - ending	<u>\$ 5,598,414</u>	<u>\$ 5,058,130</u>	<u>\$ 4,820,873</u>	<u>\$ 4,905,251</u>
City's police net pension liability	<u>\$ 2,063,322</u>	<u>\$ 2,197,131</u>	<u>\$ 3,485,517</u>	<u>\$ 1,775,293</u>
Plan fiduciary net position as a percentage of total pension liability	73.07%	69.72%	58.04%	73.43%
Covered-employee payroll	\$ 933,791	\$ 885,272	\$ 852,255	\$ 888,155
City's police net pension liability as a percentage of covered-employee payroll	220.96%	248.19%	408.98%	199.89%

Note: GASB Statement No. 67 was implemented for year ended December 31, 2014 and GASB Statement No. 68 was implemented for year ended December 31, 2015 and does not require retroactive implementation. Data will be added as information is available until 10 years of such data is available.

CITY OF LUDINGTON

SCHEDULE OF CITY GENERAL (MERS) DEFINED BENEFIT PENSION CONTRIBUTIONS

Last Ten Calendar Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Actuarially determined contribution	\$ 574,990	\$ 630,237	\$ 559,505	\$ 521,831	\$ 489,247
Contributions in relation to the actuarially determined contribution	<u>671,574</u>	<u>666,237</u>	<u>595,505</u>	<u>557,831</u>	<u>489,247</u>
Contribution (excess) deficiency	<u>\$ (96,584)</u>	<u>\$ (36,000)</u>	<u>\$ (36,000)</u>	<u>\$ (36,000)</u>	<u>\$ -</u>
Covered-employee payroll	\$ 2,153,157	\$ 2,120,040	\$ 2,156,320	\$ 1,920,675	\$ 2,008,700
Actuarially determined contribution as a percentage of covered-employee payroll	26.70%	29.73%	25.95%	27.17%	24.36%
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Actuarially determined contribution	\$ 452,171	\$ 444,060	\$ 439,377	\$ 456,155	\$ 468,646
Contributions in relation to the actuarially determined contribution	<u>452,171</u>	<u>444,060</u>	<u>439,377</u>	<u>456,155</u>	<u>468,646</u>
Contribution (excess) deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 1,982,367	\$ 1,977,617	\$ 1,919,604	\$ 2,213,525	\$ 2,099,257
Actuarially determined contribution as a percentage of covered-employee payroll	22.81%	22.45%	22.89%	20.61%	22.32%

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 from the December 31, 2015 valuation:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, open and closed
Remaining amortization period	23 years
Asset valuation method	5-year smoothed market
Inflation	2.5%
Salary increases	3.75% in the long-term
Investment rate of return	7.75%, net of investment and administrative expense including inflation
Retirement age	50-60 years of age depending on years of service credited
Mortality	RP-2014 Group Annuity Mortality Table of a 50% Male - 50% Female blend

CITY OF LUDINGTON

SCHEDULE OF CITY POLICE DEFINED BENEFIT PENSION CONTRIBUTIONS

Last Ten Calendar Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Actuarially determined contribution	\$ 318,015	\$ 311,491	\$ 306,876	\$ 297,188	\$ 289,156
Contributions in relation to the actuarially determined contribution	<u>318,015</u>	<u>311,491</u>	<u>306,876</u>	<u>297,188</u>	<u>289,156</u>
Contribution excess (deficiency)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 933,791	\$ 885,272	\$ 852,255	\$ 888,155	\$ 809,192
Actuarially determined contributions as a percentage of covered-employee payroll	34.06%	35.19%	36.01%	33.46%	35.73%
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Actuarially determined contribution	\$ 284,836	\$ 270,508	\$ 259,778	\$ 253,829	\$ 247,904
Contributions in relation to the actuarially determined contribution	<u>284,836</u>	<u>270,508</u>	<u>259,778</u>	<u>253,829</u>	<u>247,904</u>
Contribution excess (deficiency)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 832,173	\$ 745,397	\$ 854,278	\$ 896,135	\$ 902,623
Actuarially determined contributions as a percentage of covered-employee payroll	34.23%	36.29%	30.41%	28.32%	27.46%

Notes to Schedule

Valuation date:

Actuarially determined contribution rates are calculated as of December 31, the year prior 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, closed beginning with the 12/31/16 valuation
Remaining amortization period	20 years closed beginning with the 12/31/16 valuation
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	RP 2000 projected to 2014 effective with the 12/31/16 valuation

CITY OF LUDINGTON

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2017

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Actual</i>
	<i>Original</i>	<i>Final</i>		<i>Over (Under)</i>
				<i>Final Budget</i>
Revenues:				
Property taxes	\$ 3,967,500	\$ 3,855,800	\$ 3,855,202	\$ (598)
Special assessments	-	-	285	285
Licenses and permits	111,100	121,500	118,694	(2,806)
Federal grants	9,500	9,500	56,149	46,649
State grants	746,000	1,156,200	1,127,726	(28,474)
Contributions from other units	73,200	119,400	78,084	(41,316)
Charges for services	578,000	620,800	603,795	(17,005)
Fines and forfeits	30,500	30,500	31,213	713
Interest and rents	20,100	32,300	31,819	(481)
Other revenue	65,900	182,100	232,005	49,905
	<u>5,601,800</u>	<u>6,128,100</u>	<u>6,134,972</u>	<u>6,872</u>
Total revenues				
Expenditures:				
Current				
General government				
Council and Mayor	41,700	41,700	41,395	(305)
Manager	273,700	273,700	273,228	(472)
Clerk	282,300	287,600	286,726	(874)
Board of review	3,400	2,600	2,325	(275)
Treasurer	126,300	126,900	126,818	(82)
Assessor and Building inspector	200,700	213,600	212,445	(1,155)
Elections	31,100	1,980	1,626	(354)
Hall and grounds, downtown and other	314,000	263,900	258,188	(5,712)
Attorney	93,000	76,800	76,395	(405)
Board of ethics	200	200	-	(200)
Total general government	<u>1,366,400</u>	<u>1,288,980</u>	<u>1,279,146</u>	<u>(9,834)</u>
Public safety				
Police	1,572,300	1,553,000	1,549,325	(3,675)
Fire	205,700	205,700	173,684	(32,016)
Total public safety	<u>1,778,000</u>	<u>1,758,700</u>	<u>1,723,009</u>	<u>(35,691)</u>
Public works				
Department of public works	362,200	487,200	482,741	(4,459)
Roads	-	4,600	4,600	-
Sidewalk construction	109,100	86,100	84,180	(1,920)
Street lighting	97,900	74,900	68,541	(6,359)
Garbage and rubbish	741,500	741,500	736,876	(4,624)
Cemetery	230,400	230,400	223,051	(7,349)
Total public works	<u>1,541,100</u>	<u>1,624,700</u>	<u>1,599,989</u>	<u>(24,711)</u>

continued

CITY OF LUDINGTON

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE, CONTINUED

Year Ended December 31, 2017

	<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	3,600	2,565	(1,035)
Economic development	99,500	105,500	104,391	(1,109)
Total community and economic development	103,100	109,100	106,956	(2,144)
Recreation and culture				
Parks	389,500	403,100	402,158	(942)
Beach safety	29,600	31,600	28,213	(3,387)
Launching ramps	77,700	66,100	65,011	(1,089)
Total recreation and culture	496,800	500,800	495,382	(5,418)
Other				
Insurance and bonds	37,200	37,400	37,231	(169)
Capital outlay	1,659,800	1,983,020	314,085	(1,668,935)
Debt service	17,900	23,900	23,395	(505)
Total expenditures	7,000,300	7,326,600	5,579,193	(1,747,407)
Excess (deficiency) of revenues over expenditures	(1,398,500)	(1,198,500)	555,779	1,754,279
Other financing sources (uses):				
Issuance of bonds	1,200,000	1,200,000	-	(1,200,000)
Sale of capital assets	530,000	530,000	27,028	(502,972)
Interfund transfers in	900	900	1,864	964
Interfund transfers out	(323,300)	(323,300)	(323,235)	65
Net other financing sources (uses)	1,407,600	1,407,600	(294,343)	(1,701,943)
Change in fund balance	9,100	209,100	261,436	52,336
Fund balance, beginning of year	1,679,636	1,679,636	1,679,636	-
Fund balance, end of year	<u>\$ 1,688,736</u>	<u>\$ 1,888,736</u>	<u>\$ 1,941,072</u>	<u>\$ 52,336</u>

OTHER SUPPLEMENTARY INFORMATION

CITY OF LUDINGTON

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET

December 31, 2017

	<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>
Assets:					
Cash and investments	\$ 550,178	\$ 345,908	\$ 42,179	\$ 51,853	\$ 101,786
Accounts receivable	184	-	10	-	-
Notes receivable	-	-	-	-	5,207
Accrued interest receivable	217	136	17	21	-
Due from other governments	104,227	35,794	-	-	-
Inventory	40,238	-	-	-	-
Prepaid expenditures	347	5,284	2,101	1,028	-
Total assets	<u>\$ 695,391</u>	<u>\$ 387,122</u>	<u>\$ 44,307</u>	<u>\$ 52,902</u>	<u>\$ 106,993</u>
Liabilities:					
Accounts payable	\$ 25,672	\$ 2,308	\$ 3,670	\$ 1,311	\$ -
Accrued expenses	4,919	8,205	1,419	3,113	-
Due to other governments	-	-	-	-	9,261
Unearned revenue	-	-	-	2,500	-
Total liabilities	<u>30,591</u>	<u>10,513</u>	<u>5,089</u>	<u>6,924</u>	<u>9,261</u>
Fund balances:					
Nonspendable	40,585	5,284	2,101	1,028	5,207
Restricted	624,215	371,325	37,117	44,950	92,525
Total fund balances	<u>664,800</u>	<u>376,609</u>	<u>39,218</u>	<u>45,978</u>	<u>97,732</u>
Total liabilities and fund balances	<u>\$ 695,391</u>	<u>\$ 387,122</u>	<u>\$ 44,307</u>	<u>\$ 52,902</u>	<u>\$ 106,993</u>

continued

CITY OF LUDINGTON

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET, CONTINUED

December 31, 2017

	<u>Special Revenue Funds</u>		<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	
	<u>Rental Inspection Fund</u>	<u>Cemetery Capital Improvement Fund</u>	<u>Building Authority Bond Fund</u>	<u>W. Ludington Avenue Project Fund</u>	<u>Total</u>
Assets:					
Cash and investments	\$ 13,817	\$ 227,077	\$ 2	\$ 51,020	1,383,820
Accounts receivable	2,375	-	-	-	2,569
Notes receivable	-	-	-	-	5,207
Accrued interest receivable	5	89	-	-	485
Due from other governments	-	-	-	-	140,021
Inventory	-	-	-	-	40,238
Prepaid expenditures	-	-	-	-	8,760
Total assets	<u>\$ 16,197</u>	<u>\$ 227,166</u>	<u>\$ 2</u>	<u>\$ 51,020</u>	<u>\$ 1,581,100</u>
Liabilities:					
Accounts payable	\$ 191	\$ -	\$ -	\$ 6,802	39,954
Accrued expenses	207	-	-	-	17,863
Due to other governments	-	-	-	-	9,261
Unearned revenue	-	-	-	44,218	46,718
Total liabilities	<u>398</u>	<u>-</u>	<u>-</u>	<u>51,020</u>	<u>113,796</u>
Fund balances:					
Nonspendable	-	-	-	-	54,205
Restricted	<u>15,799</u>	<u>227,166</u>	<u>2</u>	<u>-</u>	<u>1,413,099</u>
Total fund balances	<u>15,799</u>	<u>227,166</u>	<u>2</u>	<u>-</u>	<u>1,467,304</u>
Total liabilities and fund balances	<u>\$ 16,197</u>	<u>\$ 227,166</u>	<u>\$ 2</u>	<u>\$ 51,020</u>	<u>\$ 1,581,100</u>

CITY OF LUDINGTON

NONMAJOR GOVERNMENTAL FUNDS

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

Year Ended December 31, 2017

	<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>
Revenues:					
Federal grants	\$ -	\$ -	\$ -	\$ 13,257	\$ 83,214
State grants	566,979	267,772	-	-	-
Contributions from other units	-	-	44,000	156,900	-
Charges for services	59,619	-	50,605	7,983	-
Interest and rents	4,722	2,764	308	3,764	-
Other revenue	1,550	2,950	16,379	3,659	-
Total revenues	<u>632,870</u>	<u>273,486</u>	<u>111,292</u>	<u>185,563</u>	<u>83,214</u>
Expenditures:					
Current					
Public safety	-	-	-	-	-
Public works	208,092	353,944	-	-	-
Health and welfare	-	-	-	194,696	-
Community and economic development	-	-	-	-	82,029
Recreation and culture	-	-	151,748	-	-
Debt service					
Principal	-	-	-	-	-
Interest and fees	-	-	-	-	-
Total expenditures	<u>208,092</u>	<u>353,944</u>	<u>151,748</u>	<u>194,696</u>	<u>82,029</u>
Excess (deficiency) of revenues over expenditures	<u>424,778</u>	<u>(80,458)</u>	<u>(40,456)</u>	<u>(9,133)</u>	<u>1,185</u>
Other financing sources (uses):					
Interfund transfers in	-	129,200	42,000	-	-
Interfund transfers out	<u>(129,200)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net other financing sources (uses)	<u>(129,200)</u>	<u>129,200</u>	<u>42,000</u>	<u>-</u>	<u>-</u>
Changes in fund balances	295,578	48,742	1,544	(9,133)	1,185
Fund balances, beginning of year	<u>369,222</u>	<u>327,867</u>	<u>37,674</u>	<u>55,111</u>	<u>96,547</u>
Fund balances, end of year	<u>\$ 664,800</u>	<u>\$ 376,609</u>	<u>\$ 39,218</u>	<u>\$ 45,978</u>	<u>\$ 97,732</u>

continued

CITY OF LUDINGTON

NONMAJOR GOVERNMENTAL FUNDS

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

Year Ended December 31, 2017

	<u>Special Revenue Funds</u>		<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	
	<u>Rental Inspection Fund</u>	<u>Cemetery Capital Improvement Fund</u>	<u>Building Authority Bond Fund</u>	<u>W. Ludington Avenue Project Fund</u>	<u>Total</u>
Revenues:					
Federal grants	\$ -	\$ -	\$ -	\$ -	\$ 96,471
State grants	-	-	-	6,802	841,553
Contributions from other units	-	-	-	-	200,900
Charges for services	25,575	8,000	-	-	151,782
Interest and rents	133	1,864	-	-	13,555
Other revenue	-	-	-	-	24,538
Total revenues	<u>25,708</u>	<u>9,864</u>	<u>-</u>	<u>6,802</u>	<u>1,328,799</u>
Expenditures:					
Current					
Public safety	28,582	-	-	-	28,582
Public works	-	-	-	6,802	568,838
Health and welfare	-	-	-	-	194,696
Community and economic development	-	-	-	-	82,029
Recreation and culture	-	-	-	-	151,748
Debt service					
Principal	-	-	250,000	-	250,000
Interest and fees	-	-	31,235	-	31,235
Total expenditures	<u>28,582</u>	<u>-</u>	<u>281,235</u>	<u>6,802</u>	<u>1,307,128</u>
Excess (deficiency) of revenues over expenditures	<u>(2,874)</u>	<u>9,864</u>	<u>(281,235)</u>	<u>-</u>	<u>21,671</u>
Other financing sources (uses):					
Interfund transfers in	-	-	281,235	-	452,435
Interfund transfers out	-	(1,864)	-	-	(131,064)
Net other financing sources (uses)	<u>-</u>	<u>(1,864)</u>	<u>281,235</u>	<u>-</u>	<u>321,371</u>
Changes in fund balances	(2,874)	8,000	-	-	343,042
Fund balances, beginning of year	<u>18,673</u>	<u>219,166</u>	<u>2</u>	<u>-</u>	<u>1,124,262</u>
Fund balances, end of year	<u>\$ 15,799</u>	<u>\$ 227,166</u>	<u>\$ 2</u>	<u>\$ -</u>	<u>\$ 1,467,304</u>

CITY OF LUDINGTON

INTERNAL SERVICE FUNDS

COMBINING STATEMENT OF NET POSITION

December 31, 2017

	<u>Motor Pool</u> <u>Fund</u>	<u>Technology</u> <u>Fund</u>	<u>Total</u>
Assets:			
Current assets:			
Cash and cash equivalents	\$ 284,317	\$ 22,557	\$ 306,874
Accounts receivable	60	-	60
Accrued interest receivable	109	-	109
Due from other governments	2,188	-	2,188
Inventory	52,460	-	52,460
Prepaid expenses	38,127	5,140	43,267
Total current assets	<u>377,261</u>	<u>27,697</u>	<u>404,958</u>
Noncurrent assets:			
Capital assets not being depreciated	4,250	-	4,250
Capital assets being depreciated, net	<u>2,531,373</u>	<u>17,703</u>	<u>2,549,076</u>
Total noncurrent assets	<u>2,535,623</u>	<u>17,703</u>	<u>2,553,326</u>
Total assets	<u>2,912,884</u>	<u>45,400</u>	<u>2,958,284</u>
Deferred outflows of resources:			
Related to pension	<u>27,239</u>	<u>-</u>	<u>27,239</u>
Liabilities:			
Current liabilities:			
Accounts payable	15,006	671	15,677
Accrued expenses	<u>7,807</u>	<u>-</u>	<u>7,807</u>
Total current liabilities	<u>22,813</u>	<u>671</u>	<u>23,484</u>
Noncurrent liabilities:			
Compensated absences payable	5,900	-	5,900
Net pension liability	<u>340,408</u>	<u>-</u>	<u>340,408</u>
Total noncurrent liabilities	<u>346,308</u>	<u>-</u>	<u>346,308</u>
Total liabilities	<u>369,121</u>	<u>671</u>	<u>369,792</u>
Deferred inflows of resources:			
Related to pension	<u>21,085</u>	<u>-</u>	<u>21,085</u>
Net position:			
Investment in capital assets	2,535,623	17,703	2,553,326
Unrestricted	<u>14,294</u>	<u>27,026</u>	<u>41,320</u>
Total net position	<u>\$ 2,549,917</u>	<u>\$ 44,729</u>	<u>\$ 2,594,646</u>

CITY OF LUDINGTON

INTERNAL SERVICE FUNDS

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

Year Ended December 31, 2017

	<i>Motor Pool</i> <u>Fund</u>	<i>Technology</i> <u>Fund</u>	<u>Total</u>
Operating revenues:			
Equipment rental - interfund charges	\$ 897,653	\$ 88,604	\$ 986,257
Other	16,484	-	16,484
Total operating revenues	<u>914,137</u>	<u>88,604</u>	<u>1,002,741</u>
Operating expenses:			
Personal services	292,247	-	292,247
Contracted services	16,996	40,886	57,882
Administrative expense	61,500	-	61,500
Insurance	54,295	-	54,295
Utilities	31,538	-	31,538
Repairs and maintenance	97,560	-	97,560
Other services and expenses	121,007	33,520	154,527
Depreciation	<u>245,326</u>	<u>14,199</u>	<u>259,525</u>
Total operating expenses	<u>920,469</u>	<u>88,605</u>	<u>1,009,074</u>
Operating income (loss)	<u>(6,332)</u>	<u>(1)</u>	<u>(6,333)</u>
Non-operating revenues (expenses):			
Interest income	1,239	1	1,240
Sales of capital assets	58,453	-	58,453
Other income	<u>1,740</u>	<u>-</u>	<u>1,740</u>
Net non-operating revenues	<u>61,432</u>	<u>1</u>	<u>61,433</u>
Changes in net position	55,100	-	55,100
Net position, beginning of year	<u>2,494,817</u>	<u>44,729</u>	<u>2,539,546</u>
Net position, end of year	<u>\$ 2,549,917</u>	<u>\$ 44,729</u>	<u>\$ 2,594,646</u>

CITY OF LUDINGTON

INTERNAL SERVICE FUNDS

COMBINING STATEMENT OF CASH FLOWS

Year Ended December 31, 2017

	<i>Motor Pool Fund</i>	<i>Technology Fund</i>	<i>Total</i>
Cash flows from operating activities:			
Cash received from customers	\$ 15,251	\$ -	\$ 15,251
Cash received from interfund services	897,653	88,604	986,257
Cash payments to employees and on behalf of employees	(343,377)	-	(343,377)
Cash payments to suppliers for goods and services	(388,009)	(72,052)	(460,061)
Net cash provided (used) by operating activities	<u>181,518</u>	<u>16,552</u>	<u>198,070</u>
Cash flows from non-capital financing activities:			
Other income	<u>1,740</u>	<u>-</u>	<u>1,740</u>
Cash flows from capital and related financing activities:			
Sale of capital assets	58,453	-	58,453
Acquisition of capital assets	(204,659)	-	(204,659)
Net cash used by capital and related financing activities	<u>(146,206)</u>	<u>-</u>	<u>(146,206)</u>
Cash flows from investing activities:			
Interest received	<u>1,185</u>	<u>1</u>	<u>1,186</u>
Net increase in cash and cash equivalents	38,237	16,553	54,790
Cash and cash equivalents, beginning of year	<u>246,080</u>	<u>6,004</u>	<u>252,084</u>
Cash and cash equivalents, end of year	<u>\$ 284,317</u>	<u>\$ 22,557</u>	<u>\$ 306,874</u>
Reconciliation of operating loss to net cash provided (used) by operating activities:			
Operating loss	\$ (6,332)	\$ (1)	\$ (6,333)
Adjustments:			
Depreciation	245,326	14,199	259,525
Change in assets and liabilities:			
Accounts receivable	(60)	-	(60)
Due from other governments	(1,173)	-	(1,173)
Inventory	15,964	-	15,964
Prepaid expenses	(2,534)	2,773	239
Accounts payable	(18,543)	(419)	(18,962)
Accrued expenses	1,996	-	1,996
Compensated absences payable	(314)	-	(314)
Net pension liability and related deferred amounts	(52,812)	-	(52,812)
Net cash provided (used) by operating activities	<u>\$ 181,518</u>	<u>\$ 16,552</u>	<u>\$ 198,070</u>

CITY OF LUDINGTON

COMPONENT UNIT – DOWNTOWN DEVELOPMENT AUTHORITY

BALANCE SHEET

December 31, 2017

	<u><i>Downtown Development Authority</i></u>
Assets:	
Cash and investments	\$ 191,367
Taxes receivable	117,892
Accounts receivable	1,507
Accrued interest receivable	74
Prepaid expenditures	<u>4,234</u>
Total assets	<u><u>\$ 315,074</u></u>
Liabilities:	
Accounts payable	\$ 9,696
Accrued expenses	1,798
Unearned revenue	<u>8,217</u>
Total liabilities	<u>19,711</u>
Deferred inflows of resources:	
Unavailable revenue - property taxes	<u>117,892</u>
Fund balance:	
Unassigned	<u>177,471</u>
Total liabilities, deferred inflows of resources, and fund balance	<u><u>\$ 315,074</u></u>
RECONCILIATION OF FUND BALANCE TO NET POSITION:	
Fund balance for component unit	\$ 177,471
Net position reported for the component unit in the statement of net position is different because:	
Capital assets used in the component unit are not financial resources and therefore are not reported in the fund statement.	
Capital assets being depreciated, net	<u>17,034</u>
Net position of component unit	<u><u>\$ 194,505</u></u>

CITY OF LUDINGTON

COMPONENT UNIT – DOWNTOWN DEVELOPMENT AUTHORITY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE

Year Ended December 31, 2017

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Actual</i>
	<i>Original</i>	<i>Final</i>		<i>Over (Under)</i>
				<i>Final Budget</i>
Revenues:				
Property taxes	\$ 115,000	\$ 117,400	\$ 108,642	\$ (8,758)
State grants	-	-	7,676	7,676
Charges for services	3,900	3,900	7,127	3,227
Interest and rents	500	1,700	1,797	97
Other revenue	<u>72,500</u>	<u>112,800</u>	<u>110,579</u>	<u>(2,221)</u>
Total revenues	<u>191,900</u>	<u>235,800</u>	<u>235,821</u>	<u>21</u>
Expenditures:				
Current				
Community and economic development	<u>172,800</u>	<u>197,800</u>	<u>196,413</u>	<u>(1,387)</u>
Change in fund balance	19,100	38,000	39,408	1,408
Fund balance, beginning of year	<u>138,063</u>	<u>138,063</u>	<u>138,063</u>	<u>-</u>
Fund balance, end of year	<u>\$ 157,163</u>	<u>\$ 176,063</u>	<u>\$ 177,471</u>	<u>\$ 1,408</u>

RECONCILIATION OF CHANGE IN FUND BALANCE TO CHANGE IN NET POSITION:

Change in fund balance \$ 39,408

Change in net position of the component unit in the statement of activities is different because:

The component units 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.

Depreciation expense	<u>(990)</u>
Change in net position	<u>\$ 38,418</u>

CITY OF LUDINGTON

GOVERNMENTAL ACTIVITIES

SCHEDULE OF INDEBTEDNESS

December 31, 2017

2005 BUILDING AUTHORITY REFUNDING BONDS

Issue in the amount of	\$ 2,135,000
Less: Principal paid in prior years	(1,335,000)
Principal paid in current year	<u>(250,000)</u>
Balance payable at December 31, 2017	<u>\$ 550,000</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>
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>\$ 16,567</u>	<u>\$ 16,568</u>	<u>\$ 550,000</u>	<u>\$ 583,135</u>

2013 COPIER/PRINTER CONTRACT PAYABLE

Issue in the amount of	\$ 89,160
Less: Principal paid in prior years	(64,650)
Principal paid in current year	<u>(23,395)</u>
Balance payable at December 31, 2017	<u>\$ 1,115</u>

Balance payable as follows:

<u>Year Ended</u>	<u>Interest Rate</u>	<u>Principal due</u>
2018	0.00%	<u>\$ 1,115</u>

CITY OF LUDINGTON

BUSINESS-TYPE ACTIVITIES

SCHEDULE OF INDEBTEDNESS

December 31, 2017

2007 SEWAGE DISPOSAL SYSTEM JUNIOR LIEN REVENUE BONDS

Issue in the amount of	\$ 1,500,000
Less: Principal paid in prior years	(615,000)
Principal paid in current year	<u>(75,000)</u>
Balance payable at December 31, 2017	<u>\$ 810,000</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>
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%	<u>691</u>	<u>691</u>	<u>85,000</u>	<u>86,382</u>
		<u>\$ 37,010</u>	<u>\$ 37,010</u>	<u>\$ 810,000</u>	<u>\$ 884,020</u>

CITY OF LUDINGTON

BUSINESS-TYPE ACTIVITIES

SCHEDULE OF INDEBTEDNESS

December 31, 2017

2016 WATER SUPPLY SYSTEM REVENUE BONDS

Issue dated October 18, 2016 in the amount of	\$ 9,817,000
Less: Principal amount not drawn	(2,388,000)
Principal paid in prior years	-
Principal paid in current year	<u>(192,000)</u>
Balance payable at December 31, 2017	<u>\$ 7,237,000</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>
2018	1.375%	\$ 66,172	\$ 66,172	\$ 188,000	\$ 320,344
2019	1.375%	64,879	64,879	191,000	320,758
2020	1.375%	63,566	63,566	193,000	320,132
2021	1.375%	62,239	62,239	196,000	320,478
2022	1.375%	60,892	60,892	199,000	320,784
2023	1.375%	59,524	59,524	201,000	320,048
2024	1.375%	58,142	58,142	204,000	320,284
2025	1.375%	56,739	56,739	207,000	320,478
2026	1.375%	55,316	55,316	210,000	320,632
2027	1.375%	53,873	53,873	213,000	320,746
2028	1.375%	52,408	52,408	216,000	320,816
2029	1.375%	50,923	50,923	219,000	320,846
2030	1.375%	49,417	49,417	222,000	320,834
2031	1.375%	47,891	47,891	225,000	320,782
2032	1.375%	46,344	46,344	228,000	320,688
2033	1.375%	44,777	44,777	231,000	320,554
2034	1.375%	43,189	43,189	234,000	320,378
2035	1.375%	41,580	41,580	237,000	320,160
2036	1.375%	39,951	39,951	241,000	320,902
2037	1.375%	38,294	38,294	244,000	320,588
2038	1.375%	36,616	36,616	247,000	320,232
2039	1.375%	34,918	34,918	251,000	320,836
2040	1.375%	33,193	33,193	254,000	320,386
2041	1.375%	31,446	31,446	258,000	320,892
2042	1.375%	29,672	29,672	261,000	320,344
2043	1.375%	27,878	27,878	265,000	320,756
2044	1.375%	26,056	26,056	268,000	320,112
2045	1.375%	24,214	24,214	272,000	320,428
2046	1.375%	22,344	22,344	276,000	320,688
2047	1.375%	20,446	20,446	280,000	320,892
2048	1.375%	18,521	18,521	283,000	320,042

continued

CITY OF LUDINGTON

BUSINESS-TYPE ACTIVITIES

SCHEDULE OF INDEBTEDNESS, CONTINUED

December 31, 2017

2016 WATER SUPPLY SYSTEM REVENUE BONDS, CONTINUED

<i>Year Ended</i>	<i>Interest Rate</i>	<i>Interest due April 1</i>	<i>Interest due October 1</i>	<i>Principal due October 1</i>	<i>Total Annual Requirement</i>
2049	1.375%	16,576	16,576	287,000	320,152
2050	1.375%	14,603	14,603	291,000	320,206
2051	1.375%	12,602	12,602	295,000	320,204
2052	1.375%	10,574	10,574	299,000	320,148
2053	1.375%	8,518	8,518	303,000	320,036
2054	1.375%	6,435	6,435	308,000	320,870
2055	1.375%	4,317	4,317	312,000	320,634
2056	1.375%	2,173	2,173	316,000	320,346
		<u>\$ 1,437,218</u>	<u>\$ 1,437,218</u>	\$ 9,625,000	<u>\$ 12,499,436</u>
				Less: Amount not drawn yet	<u>(2,388,000)</u>
					<u>\$ 7,237,000</u>

Note: Schedule is based on estimated timing of future draws

CITY OF LUDINGTON

BUSINESS-TYPE ACTIVITIES

SCHEDULE OF INDEBTEDNESS

December 31, 2017

2017 WATER SUPPLY SYSTEM JUNIOR LIEN REVENUE BONDS

Issue dated March 13, 2017 in the amount of	\$ 2,330,000
Less: Principal amount not drawn	(178,217)
Principal paid in prior years	-
Principal paid in current year	<u>(40,000)</u>
Balance payable at December 31, 2017	<u>\$ 2,111,783</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>
2018	1.875%	\$ 21,469	\$ 21,469	\$ 40,000	\$ 82,938
2019	1.875%	21,094	21,094	40,000	82,188
2020	1.875%	20,719	20,719	40,000	81,438
2021	1.875%	20,344	20,344	45,000	85,688
2022	1.875%	19,922	19,922	45,000	84,844
2023	1.875%	19,500	19,500	45,000	84,000
2024	1.875%	19,078	19,078	45,000	83,156
2025	1.875%	18,656	18,656	45,000	82,312
2026	1.875%	18,234	18,234	45,000	81,468
2027	1.875%	17,813	17,813	50,000	85,626
2028	1.875%	17,344	17,344	50,000	84,688
2029	1.875%	16,875	16,875	50,000	83,750
2030	1.875%	16,406	16,406	50,000	82,812
2031	1.875%	15,938	15,938	50,000	81,876
2032	1.875%	15,469	15,469	50,000	80,938
2033	1.875%	15,000	15,000	55,000	85,000
2034	1.875%	14,484	14,484	55,000	83,968
2035	1.875%	13,969	13,969	55,000	82,938
2036	1.875%	13,453	13,453	55,000	81,906
2037	1.875%	12,938	12,938	60,000	85,876
2038	1.875%	12,375	12,375	60,000	84,750
2039	1.875%	11,813	11,813	60,000	83,626
2040	1.875%	11,250	11,250	60,000	82,500
2041	1.875%	10,688	10,688	60,000	81,376
2042	1.875%	10,125	10,125	65,000	85,250
2043	1.875%	9,516	9,516	65,000	84,032
2044	1.875%	8,906	8,906	65,000	82,812
2045	1.875%	8,297	8,297	65,000	81,594
2046	1.875%	7,688	7,688	70,000	85,376
2047	1.875%	7,031	7,031	70,000	84,062
2048	1.875%	6,375	6,375	70,000	82,750

continued

CITY OF LUDINGTON

BUSINESS-TYPE ACTIVITIES

SCHEDULE OF INDEBTEDNESS, CONTINUED

December 31, 2017

2017 WATER SUPPLY SYSTEM JUNIOR LIEN REVENUE BONDS

<i>Year Ended</i>	<i>Interest Rate</i>	<i>Interest due April 1</i>	<i>Interest due October 1</i>	<i>Principal due October 1</i>	<i>Total Annual Requirement</i>
2049	1.875%	5,719	5,719	70,000	81,438
2050	1.875%	5,063	5,063	75,000	85,126
2051	1.875%	4,359	4,359	75,000	83,718
2052	1.875%	3,656	3,656	75,000	82,312
2053	1.875%	2,953	2,953	75,000	80,906
2054	1.875%	2,250	2,250	80,000	84,500
2055	1.875%	1,500	1,500	80,000	83,000
2056	1.875%	750	750	80,000	81,500
		<u>\$ 479,019</u>	<u>\$ 479,019</u>	\$ 2,290,000	<u>\$ 3,248,038</u>
				Less: Amount not drawn yet	(178,217)
					<u>\$ 2,111,783</u>

Note: Schedule is based on estimated timing of future draws

CITY OF LUDINGTON

BUSINESS-TYPE ACTIVITIES

SCHEDULE OF INDEBTEDNESS

December 31, 2017

2017 SEWAGE DISPOSAL SYSTEM JUNIOR LIEN REVENUE BONDS

Issue dated March 13, 2017 in the amount of	\$	2,146,000
Less:		
Principal amount not drawn		(183,502)
Principal paid in prior years		-
Principal paid in current year		<u>(38,000)</u>
Balance payable at December 31, 2017	\$	<u>1,924,498</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>
2018	2.500%	\$ 26,350	\$ 26,350	\$ 32,000	\$ 84,700
2019	2.500%	25,950	25,950	33,000	84,900
2020	2.500%	25,538	25,538	34,000	85,076
2021	2.500%	25,113	25,113	35,000	85,226
2022	2.500%	24,675	24,675	36,000	85,350
2023	2.500%	24,225	24,225	37,000	85,450
2024	2.500%	23,763	23,763	38,000	85,526
2025	2.500%	23,288	23,288	39,000	85,576
2026	2.500%	22,800	22,800	40,000	85,600
2027	2.500%	22,300	22,300	41,000	85,600
2028	2.500%	21,788	21,788	42,000	85,576
2029	2.500%	21,263	21,263	43,000	85,526
2030	2.500%	20,725	20,725	44,000	85,450
2031	2.500%	20,175	20,175	45,000	85,350
2032	2.500%	19,613	19,613	46,000	85,226
2033	2.500%	19,038	19,038	47,000	85,076
2034	2.500%	18,450	18,450	48,000	84,900
2035	2.500%	17,850	17,850	50,000	85,700
2036	2.500%	17,225	17,225	51,000	85,450
2037	2.500%	16,588	16,588	52,000	85,176
2038	2.500%	15,938	15,938	53,000	84,876
2039	2.500%	15,275	15,275	55,000	85,550
2040	2.500%	14,588	14,588	56,000	85,176
2041	2.500%	13,888	13,888	57,000	84,776
2042	2.500%	13,175	13,175	59,000	85,350
2043	2.500%	12,438	12,438	60,000	84,876
2044	2.500%	11,688	11,688	62,000	85,376
2045	2.500%	10,913	10,913	63,000	84,826
2046	2.500%	10,125	10,125	65,000	85,250
2047	2.500%	9,313	9,313	67,000	85,626
2048	2.500%	8,475	8,475	68,000	84,950

continued

CITY OF LUDINGTON

BUSINESS-TYPE ACTIVITIES

SCHEDULE OF INDEBTEDNESS, CONTINUED

December 31, 2017

2017 SEWAGE DISPOSAL SYSTEM JUNIOR LIEN REVENUE BONDS

<i>Year Ended</i>	<i>Interest Rate</i>	<i>Interest due April 1</i>	<i>Interest due October 1</i>	<i>Principal due October 1</i>	<i>Total Annual Requirement</i>
2049	2.500%	7,625	7,625	70,000	85,250
2050	2.500%	6,750	6,750	72,000	85,500
2051	2.500%	5,850	5,850	73,000	84,700
2052	2.500%	4,938	4,938	75,000	84,876
2053	2.500%	4,000	4,000	77,000	85,000
2054	2.500%	3,038	3,038	79,000	85,076
2055	2.500%	2,050	2,050	81,000	85,100
2056	2.500%	1,038	1,038	83,000	85,076
		<u>\$ 607,822</u>	<u>\$ 607,822</u>	\$ 2,108,000	<u>\$ 3,323,644</u>
				Less: Amount not drawn yet	(183,502)
					<u>\$ 1,924,498</u>

Note: Schedule is based on estimated timing of future draws



**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, 2017, 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, 2018.

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, 2018