

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. The local unit has adopted a budget for all required funds.
5. A public hearing on the budget was held in accordance with State statute.
6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. The local unit only holds deposits/investments that comply with statutory requirements.
9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. The local unit is free of repeated comments from previous years.
12. The audit opinion is UNQUALIFIED.
13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. The board or council approves all invoices prior to payment as required by charter or statute.
15. To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature <i>Hennrich A. Berthiaume</i>		Printed Name		License Number

CITY OF LUDINGTON

Mason County, Michigan

FINANCIAL STATEMENTS

December 31, 2007

CITY OF LUDINGTON

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate 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, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Ludington's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Ludington, as of December 31, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, schedule of pension plan funding progress and budgetary comparison schedules are not required parts of the basic financial statements, but are supplemental information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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 accompanying other supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Berthiaume & Co.

Saginaw, Michigan

April 23, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF LUDINGTON

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Ludington (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2007. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the financial statements and the notes to the financial statements.

Financial Highlights

The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$28,558,620 (net assets). Of this amount, \$7,783,518 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and others.

During the fiscal year, the City's total net assets increased by \$759,026. Governmental activities accounted for \$531,697 of this increase, while business-type activities accounted for \$227,329.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,686,582, a decrease of \$56,690 in comparison with prior year. Approximately 41 percent of this total or \$1,093,285 is reserved for various purposes leaving an unreserved, undesignated fund balance of \$1,593,297.

At the end of the current fiscal year, unreserved fund balance for the General Fund was \$784,828, or 13% of the General Fund's annual expenditures (including transfers). Total General Fund Fund Balance, both reserved and unreserved, was \$880,728, or 14.2% of the General Fund's annual expenditures (including operating transfers).

Overview of the Financial Statements

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

Government-wide Financial Statements

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

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

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

The government-wide financial statements can be found on pages 11 through 12 of this report.

CITY OF LUDINGTON

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fund Financial Statements

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

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

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

The City maintains twenty (20) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, which is considered to be a major fund. Data from the other nineteen (19) governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

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

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

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Sewer, Water Fund and Marina Funds, which are considered to be major funds of the City. The Internal Service Fund is presented in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found on pages 17 through 22 of this report.

CITY OF LUDINGTON

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

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

Government-wide Financial Analysis

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. For all activities of the City, assets exceeded liabilities by \$28,558,620 at the close of the most recent fiscal year. Most of this amount (67 percent) reflects the investment in capital assets (e.g., land, buildings, vehicles, equipment, and infrastructure) less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to its citizens; thus, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (6 percent) represents resources that are subject to external restrictions on how they are to be used. The remaining balance of unrestricted net assets (27 percent) may be used to meet the government's ongoing obligations to citizens and others.

CITY OF LUDINGTON

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Ludington's Net Assets

	<i>Governmental</i>		<i>Business-type</i>		<i>Total</i>	
	<i>Activities</i>		<i>Activities</i>			
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Assets:						
Current assets	\$ 7,534,810	\$ 7,522,067	\$ 4,986,011	\$ 5,226,023	\$ 12,520,821	\$ 12,748,090
Noncurrent assets:						
Restricted assets	-	-	896,017	856,017	896,017	856,017
Other assets	153,736	172,460	-	-	153,736	172,460
Capital assets	<u>7,646,871</u>	<u>6,990,495</u>	<u>15,600,758</u>	<u>13,699,322</u>	<u>23,247,629</u>	<u>20,689,817</u>
Total assets	<u>15,335,417</u>	<u>14,685,022</u>	<u>21,482,786</u>	<u>19,781,362</u>	<u>36,818,203</u>	<u>34,466,384</u>
Liabilities:						
Other liabilities	3,755,623	3,504,062	179,823	135,490	3,935,446	3,639,552
Long-term liabilities	<u>2,606,076</u>	<u>2,738,939</u>	<u>1,718,061</u>	<u>288,299</u>	<u>4,324,137</u>	<u>3,027,238</u>
Total liabilities	<u>6,361,699</u>	<u>6,243,001</u>	<u>1,897,884</u>	<u>423,789</u>	<u>8,259,583</u>	<u>6,666,790</u>
Net assets:						
Invested in capital assets, net of related debt	5,137,836	4,332,410	13,925,758	13,444,322	19,063,594	17,776,732
Restricted	815,491	666,438	896,017	856,017	1,711,508	1,522,455
Unrestricted	<u>3,020,391</u>	<u>3,443,173</u>	<u>4,763,127</u>	<u>5,057,234</u>	<u>7,783,518</u>	<u>8,500,407</u>
Total net assets	<u>\$ 8,973,718</u>	<u>\$ 8,442,021</u>	<u>\$ 19,584,902</u>	<u>\$ 19,357,573</u>	<u>\$ 28,558,620</u>	<u>\$ 27,799,594</u>

CITY OF LUDINGTON

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Ludington's Changes in Net Assets

	<i>Governmental</i>		<i>Business-type</i>		<i>Total</i>	
	<i>Activities</i>		<i>Activities</i>			
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
Revenues:						
Program revenues						
Charges for services	\$ 904,288	\$ 580,731	\$ 3,419,417	\$ 3,321,297	\$ 4,323,705	\$ 3,902,028
Operating grants	994,287	916,264	-	19,331	994,287	935,595
Capital grants	360,988	275,068	32,711	115,507	393,699	390,575
General revenues						
Property taxes	3,396,441	3,234,976	-	-	3,396,441	3,234,976
Franchise fees	33,810	44,847	-	-	33,810	44,847
State revenue sharing	822,709	823,580	-	-	822,709	823,580
Investment earnings	260,099	213,228	247,019	240,484	507,118	453,712
Total revenues	<u>6,772,622</u>	<u>6,088,694</u>	<u>3,699,147</u>	<u>3,696,619</u>	<u>10,471,769</u>	<u>9,785,313</u>
Expenses:						
General government	1,295,098	1,245,189	-	-	1,295,098	1,245,189
Public safety	1,495,712	1,516,374	-	-	1,495,712	1,516,374
Public works	2,275,952	1,918,023	-	-	2,275,952	1,918,023
Health and welfare	155,964	130,545	-	-	155,964	130,545
Community and economic development	207,851	188,724	-	-	207,851	188,724
Recreation and culture	781,891	520,503	-	-	781,891	520,503
Interest on long-term debt	124,483	131,846	-	-	124,483	131,846
Sewer	-	-	1,215,407	1,097,561	1,215,407	1,097,561
Water	-	-	1,397,367	1,370,822	1,397,367	1,370,822
Marina	-	-	805,925	808,396	805,925	808,396
Total expenses	<u>6,336,951</u>	<u>5,651,204</u>	<u>3,418,699</u>	<u>3,276,779</u>	<u>9,755,650</u>	<u>8,927,983</u>
Excess of revenues over expenses before other	<u>435,671</u>	<u>437,490</u>	<u>280,448</u>	<u>419,840</u>	<u>716,119</u>	<u>857,330</u>
Other items:						
Contributions to principal	3,175	1,995	-	-	3,175	1,995
Gain on sale of capital assets	52,851	-	(13,119)	-	39,732	-
Transfers	40,000	-	(40,000)	-	-	-
Total other items	<u>96,026</u>	<u>1,995</u>	<u>(53,119)</u>	<u>-</u>	<u>42,907</u>	<u>1,995</u>
Change in net assets	531,697	439,485	227,329	419,840	759,026	859,325
Net assets, beginning of year, as restated	<u>8,442,021</u>	<u>8,002,536</u>	<u>19,357,573</u>	<u>18,937,733</u>	<u>27,799,594</u>	<u>26,940,269</u>
Net assets, end of year	<u>\$ 8,973,718</u>	<u>\$ 8,442,021</u>	<u>\$ 19,584,902</u>	<u>\$ 19,357,573</u>	<u>\$ 28,558,620</u>	<u>\$ 27,799,594</u>

CITY OF LUDINGTON

MANAGEMENT'S DISCUSSION AND ANALYSIS

City Funds Financial Analysis

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

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

The General Fund accounts for functions relating to the general government activities of the City, which are financed by property tax levies, distribution of State revenues, and fees charged for various municipal activities and services. Fund balance of the General Fund decreased \$756,953 in 2007. This decrease is the result of the City's conscious efforts to reduce General Fund fund balance to an amount equal to 20% of its annual expenditures budget. The City plans to annually transfer any excess fund balance to a Capital Improvement Fund which will be used on improvements to the City's infrastructure. As a result of this plan, \$494,664 was transferred during the year from the General Fund to the newly created Capital Improvement Fund. The City had also budgeted to use \$258,500 of its fund balance during 2007.

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

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

The Marina Fund finances the operations of the marina.

General Fund Budgetary Highlights

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

Revenues increased over original budgeted figures as follows.

- Administrative monies received on housing programs of \$35,500
- Investment income over the budgeted figure by \$41,000
- Tax revenue increased over the budgeted figure by \$44,000
- The City received a Return on the Risk Management policy not budgeted of \$51,500.

The City also experienced an increase over the original budgeted figures as follows.

- Additional \$64,000 spent on upgrades to Cartier Park.
- Additional work on the Stearns Park and downtown restrooms totaling \$47,075.
- Replacing Christmas decorations totaled \$4,525
- Code Enforcement Officer was added as a result of changes to the Building Inspector and the cost was \$7,900.

CITY OF LUDINGTON

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Assets and Debt Administration

Capital Assets – The City's investment in capital assets for governmental and business-type activities as of December 31, 2007 amounts to \$23,247,629 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings and improvements, vehicles, furniture and equipment, systems, streets, and sidewalks. Governmental activities included additions of \$1,070,786 in buildings and improvements, equipment and infrastructure. Business-type activities included additions of \$2,316,828 in various equipment and land improvements.

Debt – At the end of the current fiscal year, the City had total long-term debt outstanding, excluding compensated absences, of \$4,184,035. Of this amount, \$2,509,035 comprises debt backed by the full faith and credit of the government. The remaining of the City's debt \$1,675,000 is backed solely by specified revenue sources.

Economic Factors

The City continues to maintain positive fund balances in each of its funds. However, concerns arise when considering the revenues and expenses that the City is facing in upcoming years. The major sources of revenue for the City are property taxes, State-shared revenues, and charges for services. These sources have certain limitations outside of the City's control – taxable value of property in the City has remained flat, resulting in small increases in property taxes; the State of Michigan has experienced budget deficits and has reduced revenue-sharing payments to local governments to help in reducing their deficit; and the economy has restricted the City in what it can charge its customers. In comparison, certain expenses continue to rise at a rate higher than inflation, such as health insurance, utility costs, and gasoline expenses.

The City has approved a balanced budget for 2008. Concern over the a 32% rise in health care costs has prompted the City to research other health care plans and adopt a lower premium plan which was still found to be favorable among the union groups. The City will continue to monitor the health care costs on a regular basis.

We are continuing to plan for the long term, and will continue to balance the budgets through controls over spending, while striving to provide the City's residents with the same level of service to which they have become accustomed.

Contacting the City's Financial Management

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

BASIC FINANCIAL STATEMENTS

CITY OF LUDINGTON

STATEMENT OF NET ASSETS

December 31, 2007

	<i>Primary Government</i>			<i>Component Unit</i>
	<i>Governmental Activities</i>	<i>Business-type Activities</i>	<i>Total</i>	
Assets:				
Cash and investments	\$ 3,341,115	\$ 4,039,739	\$ 7,380,854	\$ 23,753
Receivables	3,919,775	674,416	4,594,191	38,009
Inventory	150,722	207,750	358,472	-
Prepaid expenses	123,198	64,106	187,304	2,307
Restricted cash and investments	-	896,017	896,017	-
Capital assets:				
Nondepreciable capital assets	258,580	1,658,448	1,917,028	-
Depreciable capital assets, net	7,388,291	13,942,310	21,330,601	-
Deferred charges	153,736	-	153,736	-
Total assets	15,335,417	21,482,786	36,818,203	64,069
Liabilities:				
Accounts payable and accrued expenses	145,625	87,462	233,087	302
Deferred revenue	3,609,998	92,361	3,702,359	37,781
Long-term liabilities:				
Due within one year	159,035	150,000	309,035	-
Due in more than one year	2,447,041	1,568,061	4,015,102	-
Total liabilities	6,361,699	1,897,884	8,259,583	38,083
Net assets:				
Invested in capital assets, net of related debt	5,137,836	13,925,758	19,063,594	-
Restricted for:				
Debt service	76	200,000	200,076	-
Streets	569,551	-	569,551	-
Nonexpendable cemetery principal	245,864	-	245,864	-
Equipment replacement	-	696,017	696,017	-
Unrestricted	3,020,391	4,763,127	7,783,518	25,986
Total net assets	\$ 8,973,718	\$ 19,584,902	\$ 28,558,620	\$ 25,986

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

CITY OF LUDINGTON

STATEMENT OF ACTIVITIES Year Ended December 31, 2007

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
PRIMARY GOVERNMENT:					
<i>Governmental activities:</i>					
General government	\$ 1,295,098	\$ 318,067	\$ -	\$ -	\$ (977,031)
Public safety	1,495,712	111,436	34,384	-	(1,349,892)
Public works	2,275,952	291,393	679,550	-	(1,305,009)
Health and welfare	155,964	27,249	86,243	-	(42,472)
Community and economic development	207,851	1,635	146,087	-	(60,129)
Recreation and culture	781,891	154,508	48,023	360,988	(218,372)
Interest on long-term debt	124,483	-	-	-	(124,483)
Total governmental activities	<u>6,336,951</u>	<u>904,288</u>	<u>994,287</u>	<u>360,988</u>	<u>(4,077,388)</u>
<i>Business-type activities:</i>					
Sewer	1,215,407	1,325,317	-	32,711	142,621
Water	1,397,367	1,331,316	-	-	(66,051)
Marina	805,925	762,784	-	-	(43,141)
Total business-type activities	<u>3,418,699</u>	<u>3,419,417</u>	<u>-</u>	<u>32,711</u>	<u>33,429</u>
Total primary government	<u>\$ 9,755,650</u>	<u>\$ 4,323,705</u>	<u>\$ 994,287</u>	<u>\$ 393,699</u>	<u>\$ (4,043,959)</u>
COMPONENT UNIT:					
Downtown development authority	<u>\$ 50,798</u>	<u>\$ -</u>	<u>\$ 10,533</u>	<u>\$ -</u>	<u>\$ (40,265)</u>

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

	<i>Primary Government</i>			<i>Component Unit</i>
	<i>Governmental Activities</i>	<i>Business- type Activities</i>	<i>Total</i>	
<i>Changes in net assets:</i>				
Net (Expense) Revenue	\$ (4,077,388)	\$ 33,429	\$ (4,043,959)	\$ (40,265)
General revenues:				
Taxes:				
Property taxes, levied for general purpose	3,386,128	-	3,386,128	-
Property taxes, levied by DDA	-	-	-	29,476
Payment in lieu of taxes	10,313	-	10,313	-
Franchise taxes	33,810	-	33,810	-
Grants and contributions not restricted to specific programs	822,709	-	822,709	-
Unrestricted investment earnings	260,099	247,019	507,118	2,207
Contributions to principal of permanent funds	3,175	-	3,175	-
Special item - Gain (loss) on sale of capital asset	52,851	(13,119)	39,732	-
Transfers	40,000	(40,000)	-	-
Total general revenues and contributions	<u>4,609,085</u>	<u>193,900</u>	<u>4,802,985</u>	<u>31,683</u>
Change in net assets	531,697	227,329	759,026	(8,582)
Net assets, beginning of year, as restated	<u>8,442,021</u>	<u>19,357,573</u>	<u>27,799,594</u>	<u>34,568</u>
Net assets, end of year	<u>\$ 8,973,718</u>	<u>\$ 19,584,902</u>	<u>\$ 28,558,620</u>	<u>\$ 25,986</u>

CITY OF LUDINGTON

GOVERNMENTAL FUNDS

BALANCE SHEET

December 31, 2007

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Cash and investments	\$ 711,686	\$ 1,654,552	\$ 2,366,238
Taxes receivable	3,532,790	-	3,532,790
Accounts receivable	47,463	32,087	79,550
Special assessments receivable	22,708	-	22,708
Notes receivable	-	16,862	16,862
Accrued interest receivable	8,201	14,090	22,291
Due from other governmental units	155,000	81,220	236,220
Inventory	10,082	39,782	49,864
Prepaid expenditures	85,818	8,303	94,121
Total assets	<u>\$ 4,573,748</u>	<u>\$ 1,846,896</u>	<u>\$ 6,420,644</u>
Liabilities and Fund Balances:			
Liabilities:			
Accounts payable	\$ 23,754	\$ 10,053	\$ 33,807
Accrued expenses	47,134	12,439	59,573
Deposits payable	275	-	275
Deferred revenue	<u>3,621,857</u>	<u>18,550</u>	<u>3,640,407</u>
Total liabilities	<u>3,693,020</u>	<u>41,042</u>	<u>3,734,062</u>
Fund balances:			
Reserved for:			
Inventory	10,082	39,782	49,864
Prepaid expenditures	85,818	8,303	94,121
Debt service	-	76	76
Capital projects	-	703,360	703,360
Nonexpendable cemetery principal	-	245,864	245,864
Unreserved:			
General fund	784,828	-	784,828
Special revenue funds	<u>-</u>	<u>808,469</u>	<u>808,469</u>
Total fund balances	<u>880,728</u>	<u>1,805,854</u>	<u>2,686,582</u>
Total liabilities and fund balances	<u>\$ 4,573,748</u>	<u>\$ 1,846,896</u>	<u>\$ 6,420,644</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 ASSETS OF GOVERNMENTAL ACTIVITIES

December 31, 2007

Total fund balances for governmental funds			\$ 2,686,582
Total net assets reported for governmental activities in the statement of of net assets is different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.			
Governmental capital assets	5,569,321		
Less accumulated depreciation	<u>(1,289,620)</u>	4,279,701	
Bond issuance costs are recorded as expenditures in the governmental funds but are deferred in the statement of net assets and amortized over the life of the bond.			
			153,736
Interest payable in the governmental activities are not payable from current resources and therefore are not reported in the governmental funds.			
			(42,198)
Deferred revenues reported in the governmental funds are recognized as revenues for the governmental activities.			
Grants	1,688		
Notes	16,862		
Special assessments	<u>11,859</u>	30,409	
Long-term liabilities are not due and payable in the current year and therefore are not reported in the governmental funds:			
Bonds payable	(2,490,000)		
Contract financing	(19,035)		
Compensated absences payable	<u>(90,392)</u>	(2,599,427)	
The assets and liabilities of internal service funds are included in governmental activities in the statement of net assets.			
			<u>4,464,915</u>
Net assets of governmental activities			<u><u>\$ 8,973,718</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, 2007

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
Property taxes	\$ 3,396,441	\$ -	\$ 3,396,441
Licenses and permits	55,236	-	55,236
Federal grants	9,065	12,155	21,220
State grants	854,075	785,435	1,639,510
Contributions from other units	74,176	116,308	190,484
Charges for services	419,744	69,534	489,278
Fines and forfeits	37,888	-	37,888
Interest and rents	143,623	71,343	214,966
Other revenue	384,417	196,913	581,330
Total revenues	<u>5,374,665</u>	<u>1,251,688</u>	<u>6,626,353</u>
Expenditures:			
Current			
General government	1,332,203	-	1,332,203
Public safety	1,561,316	-	1,561,316
Public works	1,126,413	776,791	1,903,204
Health and welfare	-	150,283	150,283
Community and economic development	86,562	117,506	204,068
Recreation and culture	444,859	143,797	588,656
Other	58,959	-	58,959
Capital outlay	386,110	280,816	666,926
Debt service			
Principal	19,050	130,000	149,050
Interest and fees	-	108,378	108,378
Total expenditures	<u>5,015,472</u>	<u>1,707,571</u>	<u>6,723,043</u>
Excess (deficiency) of revenues over expenditures	<u>359,193</u>	<u>(455,883)</u>	<u>(96,690)</u>
Other financing sources (uses):			
Transfers in from other funds	72,825	1,334,471	1,407,296
Transfers out to other funds	<u>(1,188,971)</u>	<u>(178,325)</u>	<u>(1,367,296)</u>
Total other financing sources (uses)	<u>(1,116,146)</u>	<u>1,156,146</u>	<u>40,000</u>
Net change in fund balances	(756,953)	700,263	(56,690)
Fund balances, beginning of year, as restated	<u>1,637,681</u>	<u>1,105,591</u>	<u>2,743,272</u>
Fund balances, end of year	<u>\$ 880,728</u>	<u>\$ 1,805,854</u>	<u>\$ 2,686,582</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, 2007

Net change in fund balances - total governmental funds \$ (56,690)

Total change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense.

Capital outlay	770,417	
Less depreciation expense	<u>(187,822)</u>	582,595

Collection of certain items recorded as deferred revenue are considered current financial resources in the governmental funds. In the statement of activities, these items have been recorded as revenue.

Grants	(28,011)	
Notes	(1,103)	
Special assessments	<u>7,006</u>	(22,108)

Bond issuance costs are recorded as expenditures in the governmental funds but are deferred in the statement of net assets and amortized over the life of the bond. (18,724)

Repayments of principal on long-term obligations are expenditures in governmental funds but the payments reduce long-term liabilities in the statement of net assets. 149,050

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in compensated absences payable	(16,006)	
Change in accrued interest on bonds	<u>2,619</u>	(13,387)

The net revenue (expense) of the internal service fund is reported with governmental activities. (89,039)

Change in net assets of governmental activities \$ 531,697

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

CITY OF LUDINGTON

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
 December 31, 2007

	<u><i>Business-type Activities</i></u>				<i>Governmental</i>
	<u><i>Sewer Fund</i></u>	<u><i>Water Fund</i></u>	<u><i>Marina Fund</i></u>	<u><i>Total Enterprise Funds</i></u>	<u><i>Activities Internal Service Fund - Motor Pool Fund</i></u>
Assets:					
<i>Current assets:</i>					
Cash and investments	\$ 984,046	\$ 2,010,973	\$ 1,044,720	\$ 4,039,739	\$ 974,877
Accounts receivable	307,959	318,018	196	626,173	-
Accrued interest receivable	13,156	24,088	10,025	47,269	9,354
Due from other governmental units	194	780	-	974	-
Inventory	65,672	122,096	19,982	207,750	100,858
Prepaid expenses	27,911	29,603	6,592	64,106	29,077
Total current assets	<u>1,398,938</u>	<u>2,505,558</u>	<u>1,081,515</u>	<u>4,986,011</u>	<u>1,114,166</u>
<i>Noncurrent assets:</i>					
Restricted cash and investments	387,004	509,013	-	896,017	-
<i>Capital assets:</i>					
Nondepreciable capital assets	72,415	3,247	791,393	867,055	4,250
Depreciable capital assets, net	8,110,400	5,357,790	1,265,513	14,733,703	3,362,920
Total noncurrent assets	<u>8,569,819</u>	<u>5,870,050</u>	<u>2,056,906</u>	<u>16,496,775</u>	<u>3,367,170</u>
Total assets	<u>9,968,757</u>	<u>8,375,608</u>	<u>3,138,421</u>	<u>21,482,786</u>	<u>4,481,336</u>
Liabilities:					
<i>Current liabilities:</i>					
Accounts payable	48,566	2,353	9,777	60,696	3,859
Accrued expenses	8,791	13,789	1,036	23,616	5,913
Deposits payable	-	3,150	-	3,150	-
Deferred revenue	-	-	92,361	92,361	-
Current portion of long-term debt	65,000	85,000	-	150,000	-
Total current liabilities	<u>122,357</u>	<u>104,292</u>	<u>103,174</u>	<u>329,823</u>	<u>9,772</u>
<i>Noncurrent liabilities:</i>					
Compensated absences payable	15,832	23,862	3,367	43,061	6,649
Long-term debt	1,435,000	90,000	-	1,525,000	-
Total noncurrent liabilities	<u>1,450,832</u>	<u>113,862</u>	<u>3,367</u>	<u>1,568,061</u>	<u>6,649</u>
Total liabilities	<u>1,573,189</u>	<u>218,154</u>	<u>106,541</u>	<u>1,897,884</u>	<u>16,421</u>

continued

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

CITY OF LUDINGTON

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS, CONTINUED

December 31, 2007

	<i>Business-type Activities</i>			<i>Total Enterprise Funds</i>	<i>Governmental Activities</i>
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Marina Fund</i>		<i>Internal Service Fund - Motor Pool Fund</i>
Net assets:					
Invested in capital assets, net of related debt	6,682,815	5,186,037	2,056,906	13,925,758	3,367,170
Restricted for:					
Debt service	100,000	100,000	-	200,000	-
Equipment replacement	287,004	409,013	-	696,017	-
Unrestricted	1,325,749	2,462,404	974,974	4,763,127	1,097,745
Total net assets	<u>\$ 8,395,568</u>	<u>\$ 8,157,454</u>	<u>\$ 3,031,880</u>	<u>\$ 19,584,902</u>	<u>\$ 4,464,915</u>

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

CITY OF LUDINGTON

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Year Ended December 31, 2007

	<i>Business-type Activities</i>			<i>Governmental Activities</i>	
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Marina Fund</i>	<i>Total Enterprise Funds</i>	<i>Internal Service Fund - Motor Pool Fund</i>
Operating revenues:					
Charges for services	\$ 1,324,463	\$ 1,289,576	\$ 762,610	\$ 3,376,649	\$ -
Equipment rental	-	-	-	-	706,552
Other	600	8,753	-	9,353	110,713
Total operating revenues	<u>1,325,063</u>	<u>1,298,329</u>	<u>762,610</u>	<u>3,386,002</u>	<u>817,265</u>
Operating expenses:					
Personnel	301,875	488,397	111,907	902,179	164,046
Fringe benefits	155,286	247,505	46,028	448,819	76,189
Supplies	94,697	55,528	383,251	533,476	250,352
Contracted services	129,384	71,438	29,969	230,791	14,489
Administrative expense	66,600	66,600	39,500	172,700	49,900
Telephone	4,879	7,836	3,677	16,392	2,208
Mileage	51	123	790	964	139
Dues, licenses and permits	275	200	265	740	-
Education and training	2,487	3,295	563	6,345	45
Printing and publishing	2,190	-	2,158	4,348	-
Insurance	44,054	44,054	12,237	100,345	85,661
Utilities	147,399	114,235	26,601	288,235	43,387
Repairs and maintenance	53,877	72,663	25,049	151,589	107,666
Equipment rental	39,579	63,573	6,545	109,697	-
Other services and supplies	319	-	30,359	30,678	65
Depreciation	172,373	152,375	87,026	411,774	212,604
Total operating expenses	<u>1,215,325</u>	<u>1,387,822</u>	<u>805,925</u>	<u>3,409,072</u>	<u>1,006,751</u>
Operating income (loss)	<u>109,738</u>	<u>(89,493)</u>	<u>(43,315)</u>	<u>(23,070)</u>	<u>(189,486)</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 NET ASSETS, CONTINUED

Year Ended December 31, 2007

	<i>Business-type Activities</i>			<i>Governmental</i>
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Marina Fund</i>	<i>Internal Service Fund - Motor Pool Fund</i>
Non-operating revenues (expenses):				
State grants	32,711	-	-	-
Interest income	63,387	139,155	44,477	47,596
Rental income	-	28,540	-	-
Gain (loss) on sale of capital assets	-	(13,119)	-	52,851
Other income - Scrap sales	254	4,447	174	-
Interest expense	(82)	(9,545)	-	-
Net non-operating revenues	<u>96,270</u>	<u>149,478</u>	<u>44,651</u>	<u>100,447</u>
Net income (loss) before operating transfers	206,008	59,985	1,336	(89,039)
Operating transfers:				
Transfer to other funds	-	-	(40,000)	-
Net income (loss)	206,008	59,985	(38,664)	(89,039)
Net assets, beginning of year, as restated	<u>8,189,560</u>	<u>8,097,469</u>	<u>3,070,544</u>	<u>4,553,954</u>
Net assets, end of year	<u>\$ 8,395,568</u>	<u>\$ 8,157,454</u>	<u>\$ 3,031,880</u>	<u>\$ 4,464,915</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, 2007

	<i>Business-type Activities</i>			<i>Governmental Activities</i>	
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Marina Fund</i>	<i>Total Enterprise Funds</i>	<i>Internal Service Fund - Motor Pool Fund</i>
Cash flows from operating activities:					
Cash received from customers	\$ 1,442,698	\$ 1,294,963	\$ 765,421	\$ 3,503,082	\$ 115,897
Cash received from interfund services	-	-	-	-	706,552
Cash payments to employees	(298,364)	(483,401)	(110,652)	(892,417)	(163,865)
Cash payments to suppliers for goods and services	(696,804)	(756,104)	(589,533)	(2,042,441)	(643,489)
Net cash provided by operating activities	<u>447,530</u>	<u>55,458</u>	<u>65,236</u>	<u>568,224</u>	<u>15,095</u>
Cash flows from capital and related financing activities:					
State grants	32,711	-	-	32,711	-
Proceeds from sale of capital assets	-	-	-	-	66,833
Payment for disposal of asset	-	(9,500)	-	(9,500)	-
Sale of scrap	254	4,447	174	4,875	-
Acquisition and construction of capital assets	(1,867,378)	(369,173)	(80,277)	(2,316,828)	(300,367)
Proceeds from bonds	1,500,000	-	-	1,500,000	-
Principal payments	-	(80,000)	-	(80,000)	-
Interest paid	(82)	(9,545)	-	(9,627)	-
Net cash used by capital and related financing activities	<u>(334,495)</u>	<u>(463,771)</u>	<u>(80,103)</u>	<u>(878,369)</u>	<u>(233,534)</u>
Cash flows from investing activities:					
Interest received	63,387	139,155	44,477	247,019	47,596
Rent received	-	28,540	-	28,540	-
Net cash provided by investing activities	<u>63,387</u>	<u>167,695</u>	<u>44,477</u>	<u>275,559</u>	<u>47,596</u>
Net increase (decrease) in cash and cash equivalents	176,422	(240,618)	(10,390)	(74,586)	(170,843)
Cash and cash equivalents, beginning of year	<u>1,194,628</u>	<u>2,760,604</u>	<u>1,055,110</u>	<u>5,010,342</u>	<u>1,145,720</u>
Cash and cash equivalents, end of year	<u>\$ 1,371,050</u>	<u>\$ 2,519,986</u>	<u>\$ 1,044,720</u>	<u>\$ 4,935,756</u>	<u>\$ 974,877</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, 2007

	<i>Business-type Activities</i>			<i>Governmental Activities</i>	
	<i>Sewer Fund</i>	<i>Water Fund</i>	<i>Marina Fund</i>	<i>Total Enterprise Funds</i>	<i>Internal Service Fund - Motor Pool Fund</i>
Reconciliation of operating income (loss) to net cash provided by operating activities:					
Operating income (loss)	\$ 109,738	\$ (89,493)	\$ (43,315)	\$ (23,070)	\$ (189,486)
Adjustments:					
Depreciation	172,373	152,375	87,026	411,774	212,604
Change in assets and liabilities:					
Accounts receivable	651	(12,984)	(196)	(12,529)	-
Accrued interest receivable	1,671	10,398	3,362	15,431	5,184
Due from other governmental units	115,313	(780)	-	114,533	-
Inventory	(3,040)	1,884	3,673	2,517	(19,698)
Prepaid expenses	410	1,252	3,812	5,474	2,325
Accounts payable	48,035	(10,588)	9,784	47,231	1,282
Accrued expenses	(1,132)	133	190	(809)	2,703
Due to other governmental units	-	(235)	-	(235)	-
Deposits payable	-	(1,500)	-	(1,500)	-
Deferred revenue	-	-	(355)	(355)	-
Compensated absences payable	3,511	4,996	1,255	9,762	181
Net cash provided by operating activities	<u>\$ 447,530</u>	<u>\$ 55,458</u>	<u>\$ 65,236</u>	<u>\$ 568,224</u>	<u>\$ 15,095</u>

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

CITY OF LUDINGTON

FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
December 31, 2007

	<i>Police Pension Trust Fund</i>	<i>Agency Funds</i>	<i>Total Fiduciary Funds</i>
Assets:			
Cash and investments	\$ 3,727,297	\$ 4,316,622	\$ 8,043,919
Taxes receivable	<u>249,908</u>	<u>-</u>	<u>249,908</u>
Total assets	<u>3,977,205</u>	<u>4,316,622</u>	<u>8,293,827</u>
Liabilities:			
Accounts payable	-	96,383	96,383
Undistributed tax collections	-	4,220,239	4,220,239
Deferred revenue	<u>249,908</u>	<u>-</u>	<u>249,908</u>
Total liabilities	<u>249,908</u>	<u>4,316,622</u>	<u>4,566,530</u>
Net Assets:			
Held in trust for pension benefits	<u>3,727,297</u>	<u>-</u>	<u>3,727,297</u>
Total net assets	<u>\$ 3,727,297</u>	<u>\$ -</u>	<u>\$ 3,727,297</u>

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

CITY OF LUDINGTON

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN NET ASSETS

Year Ended December 31, 2007

	<i>Police Pension Trust Fund</i>
Additions:	
Property taxes	\$ 234,733
Employee contributions	42,545
Investment income	<u>313,230</u>
Total additions	<u>590,508</u>
Deductions:	
Benefit payments	<u>340,699</u>
Total deductions	<u>340,699</u>
Net increase	249,809
Net assets, beginning of year	<u>3,477,488</u>
Net assets, end of year	<u><u>\$ 3,727,297</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, 2007

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Reporting Entity:

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

Blended Component Unit

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

Discretely Presented Component Unit

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

Joint Ventures

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

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2007

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

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

Government-wide Financial Statements:

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

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

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

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

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

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

Fund Financial Statements:

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

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2007

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

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

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

The City reports the following major governmental funds:

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

The City reports the following major enterprise funds:

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

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

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

Additionally, the City reports the following fiduciary fund types:

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

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2007

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Assets, Liabilities and Equity:

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

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

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

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

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

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

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2007

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

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates:

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

Eliminations and Reclassifications:

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

Property Taxes:

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

Revenues for 2007 include property taxes levied in 2006 but appropriated by a City ordinance to finance 2007 operations. Property taxes levied in 2007 for the operations of 2008 are a lien against properties and are an asset of the City. They are recorded as taxes receivable and deferred revenue at December 31, 2007.

In 2006, the City levied property taxes on an assessed property tax value of \$230,476,612. Taxes levied consisted of 11.5675 mills for the City’s operating purposes, 2.7762 mills for refuse services, and 1.0150 mills for police pension.

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2007

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information:

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

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

Excess of Expenditures over Appropriations in Budgeted Funds:

During the year, the City did not incur expenditures that were 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, 2007	\$ -
Current year building permit revenue	21,426
Related expenses:	
Direct costs	<u>(109,363)</u>
Cumulative surplus at December 31, 2007	<u>\$ -</u>

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2007

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.

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

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

Custodial Credit Risk of Bank Deposits:

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$12,258,838 of bank deposits (certificates of deposit, checking, and savings accounts), of which \$1,138,531 was covered by federal depository insurance and the remainder was uninsured and uncollateralized.

Custodial Credit Risk of Investments:

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. The City does not have a policy for custodial risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or an agent in the City's name:

<u>Investment</u>	<u>Carrying Value</u>	<u>How Held</u>
U.S. government securities	\$ 702,890	Counterparty
Mutual funds - Police Pension Trust -		
Corporate	2,195,678	Counterparty
Governmental	1,187,142	Counterparty

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2007

Interest Rate Risk:

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

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
U.S. government securities	\$ 702,890	1.43

Credit Risk:

As of year end, the credit quality ratings of debt securities are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Corporate mutual funds - Police Pension Trust	\$ 2,195,678	Not Rated	N/A

Concentration of Credit Risk:

The City places limits on the amount the City may invest in any one issuer. At December 31, 2007, there were no investments in any one issuer (other than the U.S. government and mutual funds) that exceeded more than 5 percent of total investments.

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, 2007 the City had these accounts established and had restricted cash as follows:

	<u>Restricted Cash and Investments</u>
Sewer Fund:	
Bond Reserve	\$ 100,000
Equipment Replacement	287,004
Water Fund:	
Bond Reserve	100,000
Equipment Replacement	<u>409,013</u>
	<u>\$ 896,017</u>

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2007

NOTE 5: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2007 was as follows:

	<u>January 1,</u> <u>2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>December 31,</u> <u>2007</u>
Governmental activities:				
Nondepreciable capital assets:				
Land	\$ 163,580	\$ 95,000	\$ -	\$ 258,580
Depreciable capital assets:				
Buildings and improvements	4,885,183	157,176	-	5,042,359
Furniture and equipment	176,312	-	-	176,312
Infrastructure	480,367	217,481	-	697,848
Land and site improvements	464,444	244,809	-	709,253
Machinery and equipment	4,416,389	356,320	(188,606)	4,584,103
Total depreciable capital assets	10,422,695	975,786	(188,606)	11,209,875
Accumulated depreciation	(3,595,780)	(400,427)	174,623	(3,821,584)
Depreciable capital assets, net	6,826,915	575,359	(13,983)	7,388,291
Governmental activities, capital assets, net	<u>\$ 6,990,495</u>	<u>\$ 670,359</u>	<u>\$ (13,983)</u>	<u>\$ 7,646,871</u>
Business-type activities:				
Nondepreciable capital assets				
Land	\$ 867,055	\$ -	\$ -	\$ 867,055
Depreciable capital assets				
Buildings and improvements	4,077,728	143,177	(8,641)	4,212,264
Land improvements	2,106,438	42,226	-	2,148,664
Machinery and equipment	841,967	65,485	-	907,452
Sewer systems and plants	9,484,878	1,828,545	-	11,313,423
Water systems and plants	5,044,070	237,395	-	5,281,465
Total depreciable capital assets	21,555,081	2,316,828	(8,641)	23,863,268
Accumulated depreciation	(8,722,814)	(411,774)	5,023	(9,129,565)
Depreciable capital assets, net	12,832,267	1,905,054	(3,618)	14,733,703
Business-type activities, capital assets, net	<u>\$ 13,699,322</u>	<u>\$ 1,905,054</u>	<u>\$ (3,618)</u>	<u>\$ 15,600,758</u>

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2007

Depreciation expense was charged to functions as follows:

Governmental Activities

General government	\$ 92,069
Public safety	35,875
Public works	234,453
Health and welfare	4,264
Community and economic development	516
Recreation and culture	33,250
	<u>\$ 400,427</u>

Business-type Activities

Sewer	\$ 172,373
Water	152,375
Marina	87,026
	<u>\$ 411,774</u>

NOTE 6: DEFERRED CHARGES

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

	<i>Balance, January 1, 2007</i>	<i>2007 Amortization Expense</i>	<i>Balance, December 31, 2007</i>
Deferred charges	<u>\$ 172,460</u>	<u>\$ 18,724</u>	<u>\$ 153,736</u>

NOTE 7: DEFERRED REVENUE

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

	<i>Unavailable</i>	<i>Unearned</i>
Primary Government:		
Property taxes	\$ -	\$ 3,532,790
Grants	1,688	-
Notes	16,862	-
Special assessments	11,859	-
Other	-	169,569
	<u>\$ 30,409</u>	<u>\$ 3,702,359</u>
Component Unit:		
Property taxes	<u>\$ -</u>	<u>\$ 37,781</u>

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2007

NOTE 8: 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 are direct obligations and pledge the full faith and credit of the City. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service. Other long-term liabilities include compensated absences.

Long-term liabilities at December 31, 2007 consisted of the following:

<u>Types of Indebtedness</u>	<u>Maturity</u>	<u>Interest Rates</u>	<u>Annual Principal Installments</u>	<u>Original Issue Amount</u>	<u>Outstanding at Year-End</u>
<u>Governmental Activities</u>					
<i>General Obligation Bonds:</i>					
2000 Issue - Building Authority	8/1/04-8/1/10	5.125-5.3%	\$120,000-145,000	\$ 2,700,000	\$ 395,000
2005 Issue - Building Authority					
Refunding Bonds	8/1/06-8/1/19	3.0-4.0%	20,000-285,000	2,135,000	2,095,000
Contract Financing	1/1/07-1/1/08	0%	19,035	38,085	19,035
<u>Business-type Activities</u>					
<i>Revenue Bonds:</i>					
1998 Issue - Water Supply System	2/1/99-2/1/09	4.25-4.3%	85,000-90,000	700,000	175,000
2007 Issue - Sewer Disposal System	10/1/08-10/1/27	1.625%	65,000-85,000	1,500,000	1,500,000

The following is a summary of long-term liabilities transactions for the year ended December 31, 2007:

	<u>January 1, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>December 31, 2007</u>	<u>Due Within One Year</u>
Governmental activities:					
General Obligation Bonds					
2000 Issue	\$ 505,000	\$ -	\$ (110,000)	\$ 395,000	\$ 120,000
2005 Issue	2,115,000	-	(20,000)	2,095,000	20,000
Contract financing	38,085	-	(19,050)	19,035	19,035
Compensated absences	80,854	16,187	-	97,041	-
Total governmental activities-long-term liabilities	<u>\$ 2,738,939</u>	<u>\$ 16,187</u>	<u>\$ (149,050)</u>	<u>\$ 2,606,076</u>	<u>\$ 159,035</u>
Business-type activities:					
Revenue Bonds:					
1998 Issue	\$ 255,000	\$ -	\$ (80,000)	\$ 175,000	\$ 85,000
2007 Issue	-	1,500,000	-	1,500,000	65,000
Compensated absences	33,299	9,762	-	43,061	-
Total business-type activities-long-term liabilities	<u>\$ 288,299</u>	<u>\$ 1,509,762</u>	<u>\$ (80,000)</u>	<u>\$ 1,718,061</u>	<u>\$ 150,000</u>

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2007

Annual debt service requirements to maturity for the above bond and contractual obligations 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>
2008	\$ 159,035	\$ 101,275	\$ 260,310	\$ 150,000	\$ 27,474	\$ 177,474
2009	150,000	94,475	244,475	155,000	25,253	180,253
2010	165,000	86,950	251,950	65,000	22,262	87,262
2011	175,000	78,565	253,565	65,000	21,206	86,206
2012	190,000	72,440	262,440	70,000	20,150	90,150
2013-2017	1,120,000	243,295	1,363,295	360,000	83,606	443,606
2018-2022	550,000	33,135	583,135	390,000	53,382	443,382
2023-2027	-	-	-	420,000	20,638	440,638
	<u>\$ 2,509,035</u>	<u>\$ 710,135</u>	<u>\$ 3,219,170</u>	<u>\$ 1,675,000</u>	<u>\$ 273,971</u>	<u>\$ 1,948,971</u>

The City has an installment purchase contract payable to West Shore Bank and Fifth Third Bank. The balance owed on these contracts as of December 31, 2007 is \$146,623. These liabilities were incurred for the purchase of a fire truck and equipment for the Western Mason County Fire Authority (a joint venture). The fire truck and equipment, as well as the corresponding liabilities, have been assigned to the Authority and are not included in the financial statements of the City.

NOTE 9: DISAGGREGATED RECEIVABLE AND PAYABLE BALANCES

Receivables and payables as of year end for the City's governmental and business-type activities in the aggregate are as follows:

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>
Receivables:		
Property taxes	\$ 3,532,790	\$ -
Special assessments	22,708	-
Accounts	79,550	626,173
Accrued interest	31,645	47,269
Notes	16,862	-
Intergovernmental	236,220	974
Total receivables	<u>\$ 3,919,775</u>	<u>\$ 674,416</u>
Accounts payable and accrued expenses:		
Accounts	\$ 37,666	\$ 60,696
Payroll liabilities	65,486	23,616
Deposits payable	275	3,150
Accrued interest	42,198	-
Total accounts payable and accrued expenses	<u>\$ 145,625</u>	<u>\$ 87,462</u>

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2007

NOTE 10: INTERFUND BALANCES AND TRANSFERS

There were no outstanding interfund receivable and payable balances at December 31, 2007.

The composition of interfund transfers at December 31, 2007 is as follows reported in the fund financial statements:

<u>Funds Transferred From</u>	<u>Funds Transferred To</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	
	Recreation Fund	\$ 42,000
	Local Street Fund	232,100
	Senior Center Fund	42,300
	Building Authority Bond Fund	238,280
	Cartier Park Improvement Fund	104,616
	W. Ludington Avenue Project Fund	10,000
	Capital Improvements Fund	494,664
	Site Assessment Fund	<u>25,011</u>
		\$ 1,188,971
Marina Fund	Nonmajor Governmental Funds	
	Ludington Skate Plaza Fund	40,000
Nonmajor Governmental Funds	Nonmajor Governmental Funds	
Major Street Fund	Local Street Fund	105,500
Nonmajor Governmental Funds	General Fund	
Bryant Woods Project Fund		7,262
Waterfront Development Fund		48,187
Law Enforcement Training Fund		539
Cartier Park Fishing Piers Project Fund		6,543
Cemetery Perpetual Care Fund		<u>10,294</u>
	Total	<u>\$ 1,407,296</u>

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

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2007

NOTE 11: 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 fiscal years.

NOTE 12: EMPLOYEE RETIREMENT PLANS

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

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

All full-time employees, except policemen, are eligible to participate in the plan. Benefits vest after 10 years of service. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.25 percent times the final average compensation (FAC) with a maximum benefit of 80 percent of FAC. The most recent period of which actuarial data was available was for the year ended December 31, 2006.

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

Funding Policy – The obligation to contribute to and maintain the system for these employees was established by negotiations with the City Council and personnel policy, which does not require employees to contribute to the plan. The City of Ludington is required to contribute at an actuarially determined rate; the current rate was 17.91 percent of eligible payroll based on the December 31, 2005 valuation.

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2007

Annual Pension Costs – For year ended December 31, 2007, the City’s annual pension cost of \$374,696 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry actual age cost method. Significant actuarial assumption used include: (i) an 8% investment rate of return; (ii) projected salary increases of 4.5% per year; and (iii) 2.5% per year cost of living adjustments. All are determined using techniques that smooth the effects of short-term volatility over a four year period. The unfunded actuarial liability is being amortized at a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of December 31, follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Annual pension cost	\$ 374,696	\$ 346,899	\$ 325,705
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

City of Ludington Police Retirement System:

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

Membership in the plan consisted of the following at December 31, 2007:

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

The City of Ludington Police Retirement System provides retirement benefits as well as death, disability, and health benefits. All benefits vest after 10 years of credited service. Employees who retire after 25 years of credited service are entitled to an annual retirement benefit, payable monthly, in an amount equal to 2.7% of their average compensation for every year of credited service. The average is computed using the three highest compensated years out of last five years of employment. If an employee leaves covered employment or dies before ten years of credited service, accumulated employee contributions plus related investment earnings are refunded to the employee or designated beneficiary.

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

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2007

Method Used to Value Investments - Investments of the plan are reported at fair value based on provided market values. Investment income is recognized as earned. The net appreciation in the fair value of investments is recognized as additions to assets. Gains and losses on the sale of securities are recognized on the transaction date. The plan's cash and investments at December 31, 2007 were as follows:

	<u><i>Fair Value</i></u>
Cash and cash equivalents	\$ 344,477
Investments - Mutual funds	<u>3,382,820</u>
	<u>\$ 3,727,297</u>

Contributions - The obligation to contribute to the system for the police employees was established by negotiations between the City Council and the police bargaining unit (union contract). The contract requires the employees to contribute to the plan, at a rate of 5% of eligible payroll. The City is required to contribute based on a property tax levy of 1.0000 mills.

For the year ended December 31, 2007, the City made contributions of \$234,733 and the police employees contributed \$42,545.

Three year trend information as of December 31, follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Annual pension cost	\$ 234,733	\$ 221,142	\$ 213,021
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

Plan Provided Health Benefits - The City provides health insurance benefits as part of its police retirement plan. These benefits are funded by investment income. The plan's health care costs for the year ended December 31, 2007 were \$15,048.

Deferred Compensation Plan:

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

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

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2007

NOTE 13: POST EMPLOYMENT BENEFITS

Health Insurance:

According to the police employment contracts, the City provides police persons with partial payment toward the cost of health insurance after they qualify to retire and are retired from City employment. The City pays 50% of the health insurance cost up to a maximum of \$200 per month for those retired after 1993. Those who retired between 1989 through 1993 receive a maximum paid benefit of \$100 per month. Also, for other employees who retire with 20 or more years of service, the City will pay \$75 to \$200 per month. Elected officials who retire with 25 or more years of service will receive a maximum paid benefit of \$250 per month.

The City is using a pay-as-you-go method for financing this benefit. Currently there are 21 participants eligible to receive this benefit. During 2007, the City expended \$39,100 for this benefit in addition to the \$15,048 paid by the police pension plan.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year beginning January 1, 2009.

NOTE 14: FUND EQUITY

Specific reservations on fund equity include:

Reserved for inventory – This reserve was created to indicate that the portion of fund balance represented by inventory is not available for appropriation.

Reserved for prepaid expenditures – This reserve was created to indicate that the portion of fund balance represented by prepaid expenditures is not available for appropriation.

Reserved for debt service – This reserve was created to indicate that the portion of fund balance represented by debt service is not available for appropriation.

Reserved for capital projects – This reserve was created to indicate that portion of fund balance reserved for capital projects.

Reserved for nonexpendable cemetery principal – This reserve was created to indicate that portion of fund balance representing the nonexpendable principal portion required to be retained in perpetuity for cemetery care.

CITY OF LUDINGTON

NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2007

NOTE 15: PRIOR PERIOD ADJUSTMENT

CORRECTION OF AN ERROR:

Accrued payroll payable as of December 31, 2006 in the amount of \$ 79,865 was previously not recorded. The following corrections were made in order to recognize this liability as required.

Governmental and business-type activities beginning net assets were restated as follows:

	<u>Government-Wide</u>	
	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Net assets, December 31, 2006, as previously stated	\$ 8,497,463	\$ 19,381,997
Adjustment required to record accrued liability	<u>(55,442)</u>	<u>(24,424)</u>
Net assets, December 31, 2006, restated	<u>\$ 8,442,021</u>	<u>\$ 19,357,573</u>

The governmental funds beginning fund balances were restated as follows:

	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Local Street Fund</u>	<u>Recreation Fund</u>	<u>Senior Center Fund</u>
Fund balance, December 31, 2006, as previously stated	\$ 1,683,544	\$ 286,342	\$ 137,328	\$ 80,938	\$ 12,060
Adjustment required to record accrued liability	<u>(45,863)</u>	<u>(1,913)</u>	<u>(1,940)</u>	<u>(729)</u>	<u>(1,787)</u>
Fund balance, December 31, 2006, restated	<u>\$ 1,637,681</u>	<u>\$ 284,429</u>	<u>\$ 135,388</u>	<u>\$ 80,209</u>	<u>\$ 10,273</u>

The proprietary funds beginning net assets were restated as follows:

	<u>Enterprise Funds</u>			<u>Internal Service Fund</u>
	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Marina Fund</u>	<u>Motor Pool Fund</u>
Net assets, December 31, 2006, as previously stated	\$ 8,199,483	\$ 8,111,124	\$ 3,071,390	\$ 4,557,164
Adjustment required to record accrued liability	<u>(9,923)</u>	<u>(13,655)</u>	<u>(846)</u>	<u>(3,210)</u>
Net assets, December 31, 2006, restated	<u>\$ 8,189,560</u>	<u>\$ 8,097,469</u>	<u>\$ 3,070,544</u>	<u>\$ 4,553,954</u>

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF LUDINGTON

SCHEDULE OF PENSION PLAN FUNDING PROGRESS Year Ended December 31, 2007

Michigan Municipal Employees' Retirement System:

<u>Actuarial Valuation Date</u>	<u>12/31/06</u>	<u>12/31/05</u>	<u>12/31/04</u>
Actuarial Value of Assets	\$ 12,064,009	\$ 11,557,680	\$ 11,178,526
Actuarial Accrued Liability (AAL)	14,799,090	13,810,287	13,268,599
Unfunded AAL (UAAL)	2,735,081	2,252,607	2,090,073
Funded Ratio	82%	84%	84%
Covered Payroll	1,988,160	1,899,244	1,968,116
UAAL as a percentage of covered payroll	138%	119%	106%

City of Ludington Police Retirement System:

<u>Actuarial Valuation Date</u>	<u>12/31/06</u>	<u>12/31/05</u>	<u>12/31/04</u>
Actuarial Value of Assets	\$ 3,421,410	\$ 3,231,942	\$ 3,246,394
Actuarial Accrued Liability (AAL)	5,099,132	5,060,288	4,999,933
Unfunded AAL (UAAL)	1,677,722	1,828,346	1,753,539
Funded Ratio	67%	64%	65%
Covered Payroll	777,390	777,526	735,711
UAAL as a percentage of covered payroll	216%	235%	238%

CITY OF LUDINGTON

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	<i>Actual</i>
	<u>Original</u>	<u>Final</u>		<i>Over (Under)</i>
				<u>Final Budget</u>
Revenues:				
Property taxes	\$ 3,353,500	\$ 3,396,400	\$ 3,396,441	\$ 41
Licenses and permits	57,100	57,100	55,236	(1,864)
Federal grants	16,000	16,000	9,065	(6,935)
State grants	842,000	861,100	854,075	(7,025)
Contributions from other units	28,600	73,600	74,176	576
Charges for services	403,100	412,100	419,744	7,644
Fines and forfeits	31,000	37,300	37,888	588
Interest and rents	102,000	143,400	143,623	223
Other revenue	95,300	373,500	384,417	10,917
Total revenues	<u>4,928,600</u>	<u>5,370,500</u>	<u>5,374,665</u>	<u>4,165</u>
Expenditures:				
Current				
General government	1,277,446	1,340,646	1,332,203	(8,443)
Public safety	1,561,654	1,561,954	1,561,316	(638)
Public works	1,062,400	1,127,400	1,126,413	(987)
Community and economic development	83,700	86,800	86,562	(238)
Recreation and culture	396,900	445,500	444,859	(641)
Other	58,000	59,000	58,959	(41)
Capital outlay	159,800	397,200	386,110	(11,090)
Total expenditures	<u>4,599,900</u>	<u>5,018,500</u>	<u>5,015,472</u>	<u>(3,028)</u>
Excess (deficiency) of revenues over expenditures	<u>328,700</u>	<u>352,000</u>	<u>359,193</u>	<u>7,193</u>
Other financing sources (uses):				
Transfers from other funds	8,000	32,984	72,825	39,841
Transfers to other funds	(594,500)	(1,190,684)	(1,188,971)	1,713
Total other financing sources (uses)	<u>(586,500)</u>	<u>(1,157,700)</u>	<u>(1,116,146)</u>	<u>41,554</u>
Net change in fund balance	(257,800)	(805,700)	(756,953)	48,747
Fund balance, beginning of year, as restated	<u>1,637,681</u>	<u>1,637,681</u>	<u>1,637,681</u>	-
Fund balance, end of year	<u>\$ 1,379,881</u>	<u>\$ 831,981</u>	<u>\$ 880,728</u>	<u>\$ 48,747</u>

OTHER SUPPLEMENTAL INFORMATION

CITY OF LUDINGTON

GENERAL FUND

DETAILED SCHEDULE OF REVENUES

Year Ended December 31, 2007

Current Taxes:

Property taxes	\$ 3,309,326
Fees, penalties and interest on taxes	76,802
Payment in lieu of taxes	10,313
	<u>3,396,441</u>

Licenses and permits:

Nonbusiness licenses and permits	21,426
CATV franchise fees	33,810
	<u>55,236</u>

Federal grants:

Police	<u>9,065</u>
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State Grants:

Liquor license fees	8,758
State revenue sharing - sales tax	822,709
Dredging	19,163
Police	3,445
	<u>854,075</u>

Contribution from other units:

Contributions from county - MSHDA administrative fees	44,506
Downtown Development Authority - administrative expense	10,000
Ludington Area Schools - Resource officer	13,116
Ludington Area Schools - Election reimbursement	6,554
	<u>74,176</u>

Charges for services:

Recreation fees	56,238
Cemetery fees	36,300
Police services and reports	36,971
Fire runs	15,151
Appeals fees	1,630
Other	10,854
Charges to other funds	262,600
	<u>419,744</u>

Fines and forfeits:

Parking fines	12,545
Ordinance fines	25,343
	<u>37,888</u>

Interest and rents:

Interest	141,160
Rents	2,463
	<u>143,623</u>

continued

CITY OF LUDINGTON

GENERAL FUND

DETAILED SCHEDULE OF REVENUES, CONTINUED

Year Ended December 31, 2007

Other Revenue:

Special assessments	1,089
Cemetery lots/perpetual care	24,615
Donation of sculpture	205,000
Reimbursements	61,135
Sidewalk construction	47,536
Commissions	45,042
	<u>384,417</u>
Total revenues	<u>5,374,665</u>

Other Financing Sources:

Transfers from other funds	<u>72,825</u>
Total other financing sources	<u>72,825</u>
Total revenues and other financing sources	<u>\$ 5,447,490</u>

CITY OF LUDINGTON

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES

Year Ended December 31, 2007

Expenditures:

General Government:

Mayor and Council:

Personnel	\$	30,000
Fringe benefits		3,175
Supplies		643
Contracted services		131
Telephone		2,850
Transportation		720
Dues and memberships		125
Conferences and workshops		3,258
Other		860
		<u>41,762</u>

Manager:

Personnel		129,139
Fringe benefits		66,855
Supplies		3,607
Contracted services		10,138
Telephone		2,002
Transportation		4,200
Dues and memberships		5,487
Conferences and workshops		1,709
Other		584
		<u>223,721</u>

Clerk:

Personnel		139,937
Fringe benefits		72,154
Supplies		12,362
Contracted services		48,937
Telephone		5,968
Transportation		1,151
Dues and memberships		245
Conferences and workshops		1,503
Printing and publications		7,991
Other		1,831
		<u>292,079</u>

Board of Review:

Personnel		1,410
Fringe benefits		108
Supplies		15
Transportation		22
Conferences and workshops		50
Printing and publications		360
Other		211
		<u>2,176</u>

CITY OF LUDINGTON

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Year Ended December 31, 2007

General Government, continued:

Treasurer:

Personnel	79,713
Fringe benefits	40,052
Supplies	3,331
Contracted services	9,679
Telephone	431
Mileage	157
Dues and memberships	175
Education and training	450
Printing and publications	210
Other	80
	<hr/>
	134,278

Assessor:

Personnel	81,495
Fringe benefits	41,639
Supplies	7,733
Contracted services	40,859
Telephone	484
Transportation	395
Dues and memberships	750
Conferences and workshops	1,062
Equipment rental	4,618
	<hr/>
	179,035

Elections:

Personnel	12,899
Fringe benefits	1,021
Supplies	3,502
Contracted services	815
Printing and publications	452
	<hr/>
	18,689

Hall and Grounds:

Personnel	63,035
Fringe benefits	29,574
Supplies	18,446
Contracted services	8,523
Telephone	437
Utilities	32,776
Repairs and maintenance	16,833
Equipment rental	31,825
	<hr/>
	201,449

Attorney:

Contracted services	<hr/>
	54,464

CITY OF LUDINGTON

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Year Ended December 31, 2007

General Government, continued:

Cemetery:

Personnel	83,494
Fringe benefits	40,870
Supplies	13,404
Contracted services	1,336
Telephone	806
Transportation	36
Dues and memberships	25
Conferences and workshops	232
Utilities	13,442
Repairs and maintenance	7,590
Equipment rental	23,315
	<u>184,550</u>
 Total general government	 <u>1,332,203</u>

Public Safety:

Police:

Personnel	881,542
Fringe benefits	258,711
Supplies	14,964
Contracted services	14,889
Telephone	6,770
Transportation	1,111
Conferences and workshops	9,885
Repairs and maintenance	4,166
Equipment rental	103,321
Other	6,653
	<u>1,302,012</u>

Fire:

Personnel	69,578
Fringe benefits	13,713
Supplies	8,212
Contracted services	35,799
Telephone	6,164
Transportation	1,610
Dues and memberships	220
Conferences and workshops	1,655
Utilities	8,644
Repairs and maintenance	4,100
Equipment rental	83
Other	163
	<u>149,941</u>

CITY OF LUDINGTON

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Year Ended December 31, 2007

Public Safety, continued:

Building Inspection:

Personnel	71,078
Fringe benefits	36,925
Contracted services	1,271
Telephone	89
	<u>109,363</u>
Total public safety	<u>1,561,316</u>

Public Works:

Department of Public Works:

Personnel	125,753
Fringe benefits	63,792
Supplies	11,516
Contracted services	13,966
Telephone	738
Printing and publications	52
Repairs and maintenance	2,730
Equipment rental	81,205
Other	102
	<u>299,854</u>

Sidewalks:

Contracted services	137,341
Printing and publications	393
	<u>137,734</u>

Street Lighting:

Utilities	<u>111,735</u>
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Refuse:

Personnel	55,585
Fringe benefits	27,931
Supplies	9,651
Contracted services	380,398
Printing and publications	419
Equipment rental	103,106
	<u>577,090</u>

Total public works	<u>1,126,413</u>
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CITY OF LUDINGTON

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Year Ended December 31, 2007

Community and Economic Development:

Planning:

Personnel	33
Fringe benefits	9
Supplies	1,989
Contracted services	1,542
Dues and memberships	60
Conferences and workshops	358
Printing and publications	1,186
Repairs and maintenance	480
	<hr/>
	5,657

Economic and Community Development:

Personnel	39,045
Fringe benefits	17,549
Supplies	981
Contracted services	9,646
Telephone	123
Transportation	604
Dues and memberships	100
Conferences and workshops	451
Printing and publications	191
Other	12,215
	<hr/>
	80,905
	<hr/>
Total community and economic development	86,562

Recreation and Culture:

Parks and Recreation:

Personnel	97,574
Fringe benefits	47,933
Supplies	17,341
Contracted services	36,188
Telephone	17
Utilities	39,802
Repairs and maintenance	20,701
Equipment rental	65,816
	<hr/>
	325,372

Lifeguards:

Personnel	15,146
Fringe benefits	7,179
Supplies	2,210
Contracted services	385
Telephone	228
Printing and publications	244
Repairs and maintenance	12
	<hr/>
	25,404

CITY OF LUDINGTON

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Year Ended December 31, 2007

Recreation and culture, continued:

Launching Ramps:

Personnel	33,405
Fringe benefits	7,547
Supplies	6,124
Contracted services	27,667
Telephone	350
Utilities	4,256
Repairs and maintenance	6,561
Equipment rental	8,173
	<u>94,083</u>

Total recreation and culture 444,859

Other:

Insurance and bonds	<u>58,959</u>
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Capital Outlay:

General government	43,438
Public safety	105,999
Recreation and culture	236,673
	<u>386,110</u>

Debt Service:

Principal	<u>19,050</u>
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Total expenditures 5,015,472

Other Financing Uses:

Transfers to other funds	<u>1,188,971</u>
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Total expenditures and other financing uses \$ 6,204,443

CITY OF LUDINGTON

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET

December 31, 2007

	<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>Waterfront Playground Fund</i>
Assets:					
Cash and investments	\$ 260,181	\$ 197,227	\$ 70,894	\$ 20,066	\$ 25,134
Accounts receivable	30,600	-	-	900	-
Notes receivable	-	-	-	-	-
Accrued interest receivable	3,000	1,388	679	192	241
Due from other governmental units	29,523	12,037	3,500	-	-
Inventory	39,782	-	-	-	-
Prepaid expenditures	<u>2,594</u>	<u>3,068</u>	<u>-</u>	<u>2,385</u>	<u>-</u>
Total assets	<u>\$ 365,680</u>	<u>\$ 213,720</u>	<u>\$ 75,073</u>	<u>\$ 23,543</u>	<u>\$ 25,375</u>
Liabilities and Fund Balances:					
<i>Liabilities:</i>					
Accounts payable	\$ -	\$ -	\$ 96	\$ 239	\$ -
Accrued expenses	4,520	5,329	682	1,908	-
Deferred revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,688</u>	<u>-</u>
Total liabilities	<u>4,520</u>	<u>5,329</u>	<u>778</u>	<u>3,835</u>	<u>-</u>
<i>Fund balances:</i>					
Reserved for:					
Inventory	39,782	-	-	-	-
Prepaid expenditures	2,594	3,068	-	2,385	-
Debt service	-	-	-	-	-
Capital projects	-	-	-	-	-
Nonexpendable cemetery principal	-	-	-	-	-
Unreserved:					
Special revenue funds	<u>318,784</u>	<u>205,323</u>	<u>74,295</u>	<u>17,323</u>	<u>25,375</u>
Total fund balances	<u>361,160</u>	<u>208,391</u>	<u>74,295</u>	<u>19,708</u>	<u>25,375</u>
Total liabilities and fund balances	<u>\$ 365,680</u>	<u>\$ 213,720</u>	<u>\$ 75,073</u>	<u>\$ 23,543</u>	<u>\$ 25,375</u>

<i>Special Revenue Funds</i>					<i>Debt Service Fund</i>	
<i>Movies in the Park Fund</i>	<i>Ludington Skate Plaza Fund</i>	<i>Law Enforcement Training Fund</i>	<i>Waterfront Development Fund</i>	<i>Site Assessment Fund</i>	<i>Building Authority Bond Fund</i>	<i>Subtotal Nonmajor Governmental Funds</i>
\$ 219	\$ 135,806	\$ -	\$ -	\$ -	\$ 76	\$ 709,603
-	-	-	-	-	-	31,500
-	-	-	-	-	-	-
2	1,303	-	-	-	-	6,805
-	-	-	-	32,147	-	77,207
-	-	-	-	-	-	39,782
-	10	-	-	-	-	8,057
<u>\$ 221</u>	<u>\$ 137,119</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 32,147</u>	<u>\$ 76</u>	<u>\$ 872,954</u>
\$ -	\$ 196	\$ -	\$ -	\$ 1,912	\$ -	\$ 2,443
-	-	-	-	-	-	12,439
-	-	-	-	-	-	1,688
-	196	-	-	1,912	-	16,570
-	-	-	-	-	-	39,782
-	10	-	-	-	-	8,057
-	-	-	-	-	76	76
-	-	-	-	-	-	-
-	-	-	-	-	-	-
221	136,913	-	-	30,235	-	808,469
221	136,923	-	-	30,235	76	856,384
<u>\$ 221</u>	<u>\$ 137,119</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 32,147</u>	<u>\$ 76</u>	<u>\$ 872,954</u>

continued

CITY OF LUDINGTON

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET, CONTINUED

December 31, 2007

	<i>Capital Projects Funds</i>				
	<i>Cartier Park Fishing Piers Project Fund</i>	<i>W. Ludington Avenue Project Fund</i>	<i>Bryant Woods Project Fund</i>	<i>1984 Building Rehab Fund</i>	<i>Capital Improvements Fund</i>
Assets:					
Cash and investments	\$ -	\$ 4,785	\$ -	\$ 31,599	\$ 516,542
Accounts receivable	-	-	-	-	-
Notes receivable	-	-	-	16,862	-
Accrued interest receivable	-	-	-	-	4,956
Due from other governmental units	-	-	4,013	-	-
Inventory	-	-	-	-	-
Prepaid expenditures	-	-	-	-	-
Total assets	\$ -	\$ 4,785	\$ 4,013	\$ 48,461	\$ 521,498
Liabilities and Fund Balances:					
Liabilities:					
Accounts payable	\$ -	\$ 3,942	\$ 3,668	\$ -	\$ -
Accrued expenses	-	-	-	-	-
Deferred revenue	-	-	-	16,862	-
Total liabilities	-	3,942	3,668	16,862	-
Fund balances:					
Reserved for:					
Inventory	-	-	-	-	-
Prepaid expenditures	-	-	-	-	-
Debt service	-	-	-	-	-
Capital projects	-	843	345	31,599	521,498
Nonexpendable cemetery principal	-	-	-	-	-
Unreserved:					
Special revenue funds	-	-	-	-	-
Total fund balances	-	843	345	31,599	521,498
Total liabilities and fund balances	\$ -	\$ 4,785	\$ 4,013	\$ 48,461	\$ 521,498

continued

<u>Capital Projects Funds</u>		<u>Permanent Fund</u>	
<u>Cartier Park Improvement Fund</u>	<u>Watchcase Contamination Fund</u>	<u>Cemetery Perpetual Care Fund</u>	<u>Total Nonmajor Governmental Funds</u>
\$ -	\$ 148,488	\$ 243,535	\$ 1,654,552
587	-	-	32,087
-	-	-	16,862
-	-	2,329	14,090
-	-	-	81,220
-	-	-	39,782
246	-	-	8,303
<u>833</u>	<u>148,488</u>	<u>245,864</u>	<u>1,846,896</u>
\$ -	\$ -	\$ -	\$ 10,053
-	-	-	12,439
-	-	-	18,550
<u>-</u>	<u>-</u>	<u>-</u>	<u>41,042</u>
-	-	-	39,782
246	-	-	8,303
-	-	-	76
587	148,488	-	703,360
-	-	245,864	245,864
-	-	-	808,469
<u>833</u>	<u>148,488</u>	<u>245,864</u>	<u>1,805,854</u>
<u>\$ 833</u>	<u>\$ 148,488</u>	<u>\$ 245,864</u>	<u>\$ 1,846,896</u>

CITY OF LUDINGTON

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES Year Ended December 31, 2007

	<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>Waterfront Playground Fund</i>
Revenues:					
Federal grants	\$ -	\$ -	\$ -	\$ 12,155	\$ -
State grants	465,812	194,575	-	-	-
Contributions from other units	-	-	41,108	73,900	-
Charges for services	-	-	42,285	27,249	-
Interest and rents	10,285	8,401	4,248	1,862	1,056
Other revenue	1,347	14,005	10,443	6,109	156
Total revenues	<u>477,444</u>	<u>216,981</u>	<u>98,084</u>	<u>121,275</u>	<u>1,212</u>
Expenditures:					
Current					
Public works	295,213	481,578	-	-	-
Health and welfare	-	-	-	150,283	-
Community and economic development	-	-	-	-	-
Recreation and culture	-	-	136,226	-	1,667
Capital outlay	-	-	9,772	3,857	-
Debt service					
Principal	-	-	-	-	-
Interest and fees	-	-	-	-	-
Total expenditures	<u>295,213</u>	<u>481,578</u>	<u>145,998</u>	<u>154,140</u>	<u>1,667</u>
Excess (deficiency) of revenues over expenditures	<u>182,231</u>	<u>(264,597)</u>	<u>(47,914)</u>	<u>(32,865)</u>	<u>(455)</u>
Other financing sources (uses):					
Transfers in	-	337,600	42,000	42,300	-
Transfers out	<u>(105,500)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(105,500)</u>	<u>337,600</u>	<u>42,000</u>	<u>42,300</u>	<u>-</u>
Net change in fund balance	76,731	73,003	(5,914)	9,435	(455)
Fund balances, beginning of year, as restated	<u>284,429</u>	<u>135,388</u>	<u>80,209</u>	<u>10,273</u>	<u>25,830</u>
Fund balances, end of year	<u>\$ 361,160</u>	<u>\$ 208,391</u>	<u>\$ 74,295</u>	<u>\$ 19,708</u>	<u>\$ 25,375</u>

<i>Special Revenue Funds</i>					<i>Debt Service Fund</i>	<i>Subtotal Nonmajor Governmental Funds</i>
<i>Movies in the Park Fund</i>	<i>Ludington Skate Plaza Fund</i>	<i>Law Enforcement Training Fund</i>	<i>Waterfront Development Fund</i>	<i>Site Assessment Fund</i>	<i>Building Authority Bond Fund</i>	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,155
-	-	-	-	95,538	-	755,925
1,300	-	-	-	-	-	116,308
-	-	-	-	-	-	69,534
22	6,883	-	-	-	95	32,852
1,250	159,320	-	-	-	-	192,630
<u>2,572</u>	<u>166,203</u>	<u>-</u>	<u>-</u>	<u>95,538</u>	<u>95</u>	<u>1,179,404</u>
-	-	-	-	-	-	776,791
-	-	-	-	-	-	150,283
-	-	-	-	90,314	-	90,314
2,351	3,553	-	-	-	-	143,797
-	119,653	-	-	-	-	133,282
-	-	-	-	-	130,000	130,000
-	-	-	-	-	108,378	108,378
<u>2,351</u>	<u>123,206</u>	<u>-</u>	<u>-</u>	<u>90,314</u>	<u>238,378</u>	<u>1,532,845</u>
<u>221</u>	<u>42,997</u>	<u>-</u>	<u>-</u>	<u>5,224</u>	<u>(238,283)</u>	<u>(353,441)</u>
-	40,000	-	-	25,011	238,280	725,191
-	-	(539)	(48,187)	-	-	(154,226)
-	40,000	(539)	(48,187)	25,011	238,280	570,965
221	82,997	(539)	(48,187)	30,235	(3)	217,524
-	53,926	539	48,187	-	79	638,860
<u>\$ 221</u>	<u>\$ 136,923</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,235</u>	<u>\$ 76</u>	<u>\$ 856,384</u>

continued

CITY OF LUDINGTON

NONMAJOR GOVERNMENTAL FUNDS

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

Year Ended December 31, 2007

	<i>Capital Projects Funds</i>				
	<i>Cartier Park Fishing Piers Project Fund</i>	<i>W. Ludington Avenue Project Fund</i>	<i>Bryant Woods Project Fund</i>	<i>1984 Building Rehab Fund</i>	<i>Capital Improvements Fund</i>
Revenues:					
Federal grants	\$ -	\$ -	\$ -	\$ -	\$ -
State grants	8,250	10,125	11,135	-	-
Contributions from other units	-	-	-	-	-
Charges for services	-	-	-	-	-
Interest and rents	-	-	-	260	26,834
Other revenue	-	-	-	1,108	-
Total revenues	<u>8,250</u>	<u>10,125</u>	<u>11,135</u>	<u>1,368</u>	<u>26,834</u>
Expenditures:					
Current					
Public works	-	-	-	-	-
Health and welfare	-	-	-	-	-
Community and economic development	-	-	11,135	2,980	-
Recreation and culture	-	-	-	-	-
Capital outlay	1,707	39,097	-	1,844	-
Debt service					
Principal	-	-	-	-	-
Interest and fees	-	-	-	-	-
Total expenditures	<u>1,707</u>	<u>39,097</u>	<u>11,135</u>	<u>4,824</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>6,543</u>	<u>(28,972)</u>	<u>-</u>	<u>(3,456)</u>	<u>26,834</u>
Other financing sources (uses):					
Transfers in	-	10,000	-	-	494,664
Transfers out	(6,543)	-	(7,262)	-	-
Total other financing sources (uses)	<u>(6,543)</u>	<u>10,000</u>	<u>(7,262)</u>	<u>-</u>	<u>494,664</u>
Net change in fund balance	-	(18,972)	(7,262)	(3,456)	521,498
Fund balances, beginning of year, as restated	-	19,815	7,607	35,055	-
Fund balances, end of year	<u>\$ -</u>	<u>\$ 843</u>	<u>\$ 345</u>	<u>\$ 31,599</u>	<u>\$ 521,498</u>

<u>Capital Projects Funds</u>		<u>Permanent Fund</u>	
<u>Cartier Park Improvement Fund</u>	<u>Watchcase Contamination Fund</u>	<u>Cemetery Perpetual Care Fund</u>	<u>Total Nonmajor Governmental Funds</u>
\$ -	\$ -	\$ -	\$ 12,155
-	-	-	785,435
-	-	-	116,308
-	-	-	69,534
1,103	-	10,294	71,343
-	-	3,175	196,913
<u>1,103</u>	<u>-</u>	<u>13,469</u>	<u>1,251,688</u>
-	-	-	776,791
-	-	-	150,283
-	13,077	-	117,506
-	-	-	143,797
104,886	-	-	280,816
-	-	-	130,000
<u>-</u>	<u>-</u>	<u>-</u>	<u>108,378</u>
<u>104,886</u>	<u>13,077</u>	<u>-</u>	<u>1,707,571</u>
<u>(103,783)</u>	<u>(13,077)</u>	<u>13,469</u>	<u>(455,883)</u>
104,616	-	-	1,334,471
<u>-</u>	<u>-</u>	<u>(10,294)</u>	<u>(178,325)</u>
<u>104,616</u>	<u>-</u>	<u>(10,294)</u>	<u>1,156,146</u>
833	(13,077)	3,175	700,263
<u>-</u>	<u>161,565</u>	<u>242,689</u>	<u>1,105,591</u>
<u>\$ 833</u>	<u>\$ 148,488</u>	<u>\$ 245,864</u>	<u>\$ 1,805,854</u>

CITY OF LUDINGTON

COMPONENT UNIT

BALANCE SHEET

December 31, 2007

	<u><i>Downtown Development Authority</i></u>
Assets:	
Cash and investments	\$ 23,753
Taxes receivable	37,781
Accrued interest receivable	228
Prepaid expenditures	<u>2,307</u>
Total assets	<u>\$ 64,069</u>
Liabilities and Fund Balance:	
Liabilities:	
Accounts payable	\$ 302
Deferred revenue	<u>37,781</u>
Total liabilities	<u>38,083</u>
Fund balance:	
Unreserved	<u>25,986</u>
Total fund balance	<u>25,986</u>
Total liabilities and fund balance	<u>\$ 64,069</u>

CITY OF LUDINGTON

COMPONENT UNIT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

Year Ended December 31, 2007

	<u><i>Downtown Development Authority</i></u>
Revenues:	
Property taxes	\$ 29,476
Interest and rents	2,207
Other revenue	<u>10,533</u>
Total revenues	<u>42,216</u>
Expenditures:	
Current	
Community and economic development	36,141
Capital outlay	<u>14,657</u>
Total expenditures	<u>50,798</u>
Net change in fund balance	(8,582)
Fund balance, beginning of year	<u>34,568</u>
Fund balance, end of year	<u><u>\$ 25,986</u></u>

CITY OF LUDINGTON

FIDUCIARY FUNDS – AGENCY FUNDS

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

Year Ended December 31, 2007

	<u>January 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>December 31, 2007</u>
<u>Bryant Road Property Fund</u>				
Assets:				
Cash and cash equivalents	\$ 387,607	\$ 6,776	\$ 300,000	\$ 94,383
Liabilities:				
Accounts payable	\$ 387,607	\$ 6,776	\$ 300,000	\$ 94,383
<u>Tax Collection Fund</u>				
Assets:				
Cash and cash equivalents	\$ 4,043,558	\$ 12,465,385	\$ 12,288,704	\$ 4,220,239
Liabilities:				
Undistributed tax collections	\$ 4,043,558	\$ 12,465,385	\$ 12,288,704	\$ 4,220,239
<u>Transportation Fund</u>				
Assets:				
Cash and cash equivalents	\$ 2,000	\$ -	\$ -	\$ 2,000
Liabilities:				
Accounts payable	\$ 2,000	\$ -	\$ -	\$ 2,000
<u>Total Agency Funds</u>				
Assets:				
Cash and cash equivalents	\$ 4,433,165	\$ 12,472,161	\$ 12,588,704	\$ 4,316,622
Liabilities:				
Accounts payable	\$ 389,607	\$ 6,776	\$ 300,000	\$ 96,383
Undistributed tax collections	4,043,558	12,465,385	12,288,704	4,220,239
	<u>\$ 4,433,165</u>	<u>\$ 12,472,161</u>	<u>\$ 12,588,704</u>	<u>\$ 4,316,622</u>

CITY OF LUDINGTON

GOVERNMENTAL ACTIVITIES

SCHEDULE OF INDEBTEDNESS

December 31, 2007

BUILDING AUTHORITY BONDS, SERIES 2000

Issue in the amount of	\$ 2,700,000
Less: Principal paid in prior years	(2,195,000)
Principal paid in current year	<u>(110,000)</u>
Balance payable at December 31, 2007	<u>\$ 395,000</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>
2008	5.125%	\$ 10,330	\$ 10,330	\$ 120,000	\$ 140,660
2009	5.250%	7,255	7,255	130,000	144,510
2010	5.300%	<u>3,843</u>	<u>3,842</u>	<u>145,000</u>	<u>152,685</u>
		<u>\$ 21,428</u>	<u>\$ 21,427</u>	<u>\$ 395,000</u>	<u>\$ 437,855</u>

2005 BUILDING AUTHORITY REFUNDING BONDS

Issue in the amount of	\$ 2,135,000
Less: Principal paid in prior years	(20,000)
Principal paid in current year	<u>(20,000)</u>
Balance payable at December 31, 2007	<u>\$ 2,095,000</u>

Balance payable as follows:

<u>Fiscal 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>
2008	3.25%	\$ 40,308	\$ 40,307	\$ 20,000	\$ 100,615
2009	3.50%	39,982	39,983	20,000	99,965
2010	3.50%	39,633	39,632	20,000	99,265
2011	3.50%	39,282	39,283	175,000	253,565
2012	3.75%	36,220	36,220	190,000	262,440
2013	4.00%	32,658	32,657	195,000	260,315
2014	4.00%	28,757	28,758	210,000	267,515
2015	4.00%	24,558	24,557	225,000	274,115
2016	3.70%	20,057	20,058	240,000	280,115
2017	3.80%	15,618	15,617	250,000	281,235
2018	3.90%	10,867	10,868	265,000	286,735
2019	4.00%	<u>5,700</u>	<u>5,700</u>	<u>285,000</u>	<u>296,400</u>
		<u>\$ 333,640</u>	<u>\$ 333,640</u>	<u>\$ 2,095,000</u>	<u>\$ 2,762,280</u>

CITY OF LUDINGTON

BUSINESS-TYPE ACTIVITIES

SCHEDULE OF INDEBTEDNESS

December 31, 2007

1998 WATER SUPPLY SYSTEM REVENUE BONDS

Issue in the amount of	\$	700,000
Less:		
Principal paid in prior years		(445,000)
Principal paid in current year		<u>(80,000)</u>
Balance payable at December 31, 2007	\$	<u>175,000</u>

Balance payable as follows:

<u>Fiscal</u> <u>Year Ended</u>	<u>Interest</u> <u>Rate</u>	<u>Principal due</u> <u>February 1</u>	<u>Interest due</u> <u>February 1</u>	<u>Interest due</u> <u>August 1</u>	<u>Total</u> <u>Annual</u> <u>Requirement</u>
2008	4.300%	\$ 85,000	\$ 3,762	\$ 1,935	\$ 90,697
2009	4.300%	<u>90,000</u>	<u>1,935</u>	<u>-</u>	<u>91,935</u>
		<u>\$ 175,000</u>	<u>\$ 5,697</u>	<u>\$ 1,935</u>	<u>\$ 182,632</u>

CITY OF LUDINGTON

BUSINESS-TYPE ACTIVITIES

SCHEDULE OF INDEBTEDNESS

December 31, 2007

2007 SEWAGE DISPOSAL SYSTEM JUNIOR LIEN REVENUE BONDS

Issue in the amount of	\$ 1,500,000
Less: Principal paid in prior years	-
Principal paid in current year	-
Balance payable at December 31, 2007	<u>\$ 1,500,000</u>

Balance payable as follows:

<i>Fiscal Year Ended</i>	<i>Interest Rate</i>	<i>Interest due April 1</i>	<i>Interest due October 1</i>	<i>Principal due October 1</i>	<i>Total Annual Requirement</i>
2008	1.625%	\$ 9,589	\$ 12,188	\$ 65,000	\$ 86,777
2009	1.625%	11,659	11,659	65,000	88,318
2010	1.625%	11,131	11,131	65,000	87,262
2011	1.625%	10,603	10,603	65,000	86,206
2012	1.625%	10,075	10,075	70,000	90,150
2013	1.625%	9,506	9,506	70,000	89,012
2014	1.625%	8,937	8,937	70,000	87,874
2015	1.625%	8,369	8,369	70,000	86,738
2016	1.625%	7,800	7,800	75,000	90,600
2017	1.625%	7,191	7,191	75,000	89,382
2018	1.625%	6,581	6,581	75,000	88,162
2019	1.625%	5,972	5,972	75,000	86,944
2020	1.625%	5,363	5,363	80,000	90,726
2021	1.625%	4,712	4,712	80,000	89,424
2022	1.625%	4,063	4,063	80,000	88,126
2023	1.625%	3,412	3,412	80,000	86,824
2024	1.625%	2,763	2,763	85,000	90,526
2025	1.625%	2,072	2,072	85,000	89,144
2026	1.625%	1,381	1,381	85,000	87,762
2027	1.625%	691	691	85,000	86,382
		<u>\$ 131,870</u>	<u>\$ 134,469</u>	<u>\$ 1,500,000</u>	<u>\$ 1,766,339</u>

BERTHIAUME
& COMPANY

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REQUIRED COMMUNICATION TO THE CITY OF LUDINGTON IN ACCORDANCE WITH PROFESSIONAL STANDARDS

To the City Council
City of Ludington

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Ludington for the year ended December 31, 2007, and have issued our report thereon dated April 23, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 20, 2007, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Ludington are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no sensitive estimates affecting the financial statements.

Disclosures

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures may be particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 25, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Internal Control Matters

In planning and performing our audit of the financial statements of the City of Ludington as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Ludington's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Municipality's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting

principles such that there is more than a remote likelihood that misstatement of the Municipality's financial statements that is more than inconsequential will not be prevented or detected by the Municipality's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Municipality's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined above.

This communication is intended solely for the information and use of management, Council, and others within the Municipality, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Berthiaume & Co.

Berthiaume & Company
Certified Public Accountants

Saginaw, Michigan
April 23, 2008