

CITY OF LUDLOW, KENTUCKY

FINANCIAL STATEMENTS

For the Year Ended June 30, 2012

CITY OF LUDLOW, KENTUCKY

FINANCIAL STATEMENTS

For the Year Ended June 30, 2012

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CITY OF LUDLOW, KENTUCKY

CITY OFFICIALS

For the Year Ended June 30, 2012

Council Members

Kenneth Wynn, Mayor

Denny Allen

Tom Amann

Josh Boone

C.J. Kleier

Charles Manning

Joyce McMullin

City Management

Brian Richmond, City Administrator

Laurie Sparks, City Clerk

Alice Margolen, Treasurer

Jeff Otis, Attorney



Independent Auditor's Report

**To the Honorable Mayor and
Members of the Council
City of Ludlow, Kentucky**

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Ludlow, Kentucky (City), as of and for the year ended June 30, 2012, which collectively comprises the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City'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 and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Ludlow, Kentucky as of June 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2013 on our consideration of the City of Ludlow, Kentucky's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial



reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5 through 9 and page 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Ludlow, Kentucky's financial statements as a whole. The combining statement of revenues, expenditures, and changes in fund balances – all special revenue funds are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining statement of revenues, expenditures, and changes in fund balances – all special revenue funds and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.



Van Gorder, Walker & Co., Inc.
Certified Public Accountants

In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Van Gorder, Walker & Co., Inc.

Van Gorder, Walker & Co., Inc.
Erlanger, Kentucky
February 28, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis (MD&A) is required supplementary information per the Government Accounting Standards Board (GASB) that provides management with the opportunity to provide both short and long term analysis of the City of Ludlow, Kentucky's financial activities. The MD&A should be read in conjunction with the City's basic financial statements.

The annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City and present a long-term view of the City's finances. The City's fund financial statements provide more detail on the operations of the City than the government wide statements.

Reporting the City as a Whole

Financial Highlights

- The ending cash balance for the City was \$533,914, an increase of 205% from 2011.
- The City continues to utilize federal stimulus funds to renovate blighted properties for resale under the Neighborhood Stabilization Program.
- The City received federal funding from FEMA to assist it with the purchase of a new fire truck and generator.
- The City continued to receive funding from the federal government to finance its Elm Street "streetscape" project.
- The City received a Community Development Block Grant, which is being used to provide funding assistance to the City's new supermarket, the Riverside Marketplace. These funds will be repaid to the City and, in turn, the City will develop a Revolving Loan Fund to assist additional businesses.
- The City continues to acquire new vehicles and equipment to provide the best public safety services to its citizens.

Overview of 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 comprise the following three components: government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government – Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to 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 on how much the City'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.

The government-wide financial statements outline functions of the City that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the City include Administration, Public Safety, Public Works, the Neighborhood Stabilization Program, Community Development, and Fire and EMS. Capital assets are also supported by taxes and intergovernmental revenues. Municipal Aid is supported by designated support coming from the state.

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 fund financial statements provide detailed information about the most significant funds – not the City as a whole. The City Council establishes funds to help control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City has three main set of funds – (1) the General Fund, (2) special revenue funds for the Community Development Block Grant, Municipal Aid, Rehab, Fire and EMS, and the Neighborhood Stabilization Program, and (3) a proprietary fund, which consists of the business-type activities of the City's Revolving Loan Fund.

The City's basic services are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The modified accrual basis allows certain revenues to be recognized before actually received. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation of the fund financial statements. The full accrual accounting method is used for reporting on the City's proprietary fund.

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.

Government-Wide Financial Analysis

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$4,337,363 at June 30, 2012.

A comparison of net assets in the past two fiscal years follows:

	<u>2012</u>	<u>2011</u>
Current assets	\$ 728,356	\$ 356,246
Capital assets, net	<u>4,707,024</u>	<u>3,487,206</u>
Total assets	<u>5,435,380</u>	<u>3,843,452</u>
Total liabilities	<u>1,098,017</u>	<u>892,149</u>
Total net assets	<u><u>\$ 4,337,363</u></u>	<u><u>\$ 2,951,303</u></u>

The largest portion of the City's net assets reflects its investment in capital assets net of related debt. These capital assets are used to provide services and city infrastructure, and consequently, are not available for future spending.

The City's financial position is the product of several financial transactions including the net results of activities, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Governmental Activities

The following represents a summary of the City's revenue and expense for the fiscal years ended June 30, 2012 and 2011.

	<u>2012</u>	<u>2011</u>
Revenues		
Charges for services	\$ 553,850	\$ 911,482
Operating grants and contributions	559,465	196,937
Capital grants and contributions	1,322,969	360,524
General Revenues		
Taxes	1,145,389	1,041,698
License and permit fees	422,819	415,625
Code Enforcement Board	9,253	53,205
Miscellaneous	72,051	88,702
Police reports/citations	3,922	8,373
Proceeds from disposal of property	-	117,875
Unrestricted investment earnings	37	63
Total revenues:	<u>4,089,755</u>	<u>3,194,484</u>
Expenses		
Legislative and administrative	954,028	989,279
Fire and EMS expenses	424,478	348,706
Municipal aid expenses	77,567	35,888
Main Street/Renaissance	-	15,099
Neighborhood Stabilization Program	10,024	21,890
Park department	-	7,560
Public safety	966,412	1,014,502
Public works	216,940	216,033
Rehab	-	161
Interest on long-term debt	15,895	16,306
Total expenses:	<u>2,665,344</u>	<u>2,665,424</u>
Transfers out to proprietary fund	<u>(462,270)</u>	<u>-</u>
Excess of Revenues over Expenditures and Other Financing Uses	<u>\$ 962,141</u>	<u>\$ 529,060</u>

Business-type Activities

The City established a proprietary fund during the year ended June 30, 2012 in order to maintain its Revolving Loan Fund. The basis of this fund was the receipt of community development block grant funds that were used to purchase equipment which would be leased from the City under an operating lease by a new business, the Riverside Marketplace. The City's ownership of this equipment is recognized on the Statement of Net Assets within the Revolving Loan Fund.

Therefore, a transfer in from the governmental funds has been recorded below to show the funding of the purchase of the new equipment.

	<u>2012</u>
Revenues	
Charges for services	\$ 8,045
Operating grants and contributions	-
Capital grants and contributions	-
General Revenues	
Sales taxes	<u>228</u>
Total revenues:	<u>8,273</u>
Expenses	
Revolving loan fund	<u>46,624</u>
Total expenses:	<u>46,624</u>
Transfers in from governmental funds	<u>462,270</u>
Change in Net Assets	<u>\$ 423,919</u>

Economic Factors and Next Year's Budget

The City continues to annually invest in its infrastructure of roads, parks and City properties. The City has adequate contingency funds to address any non-catastrophic unforeseen conditions and events.

Contacting the City's Financial Management

This financial report is designed to provide the citizens, taxpayers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, contact the City Clerk at, the City of Ludlow, P.O. Box 16188, 51 Elm Street, Ludlow, Kentucky 41016.

CITY OF LUDLOW, KENTUCKY STATEMENT OF NET ASSETS June 30, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 526,078	\$ 7,836	\$ 533,914
Accounts receivable	10,605	-	10,605
Grants receivable	34,440	-	34,440
Insurance tax receivable	127,184	-	127,184
Property taxes/sanitation fees receivable	22,213	-	22,213
Capital assets			
Land (not depreciated)	1,066,000	-	1,066,000
Assets held for sale (not depreciated)	595,341	-	595,341
Property, plant and equipment, net of depreciation	<u>2,629,600</u>	<u>416,083</u>	<u>3,045,683</u>
TOTAL ASSETS	<u>5,011,461</u>	<u>423,919</u>	<u>5,435,380</u>
LIABILITIES			
Accounts payable	350,000	-	350,000
Accrued payroll and payroll taxes	1,329	-	1,329
Long-term liabilities			
Compensated absences	44,622	-	44,622
Due within one year	71,574	-	71,574
Due in more than one year	<u>630,492</u>	<u>-</u>	<u>630,492</u>
TOTAL LIABILITIES	<u>1,098,017</u>	<u>-</u>	<u>1,098,017</u>
NET ASSETS			
Invested in capital assets, net of related debt	2,993,534	416,083	3,409,617
Restricted	-	7,836	7,836
Unrestricted	<u>919,910</u>	<u>-</u>	<u>919,910</u>
TOTAL NET ASSETS	<u>\$ 3,913,444</u>	<u>\$ 423,919</u>	<u>\$ 4,337,363</u>

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

CITY OF LUDLOW, KENTUCKY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012

Functions/Programs	Program Revenues			Net Revenue (Expense) & Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary Government							
Governmental activities							
Legislative and administrative	\$ 954,028	\$ 420,080	\$ -	\$ 34,440	\$ (499,508)	\$ -	\$ (499,508)
Public safety	966,412	133,770	61,304	-	(771,338)	-	(771,338)
Public works	216,940	-	-	-	(216,940)	-	(216,940)
Neighborhood Stabilization Program	10,024	-	-	237,553	227,529	-	227,529
Streets	77,567	-	95,732	256,159	274,324	-	274,324
Fire and EMS	424,478	-	402,429	332,500	310,451	-	310,451
Community Development Block Grant	-	-	-	462,317	462,317	-	462,317
Interest on long-term debt	15,895	-	-	-	(15,895)	-	(15,895)
Total governmental activities	<u>2,665,344</u>	<u>553,850</u>	<u>559,465</u>	<u>1,322,969</u>	<u>(229,060)</u>	<u>-</u>	<u>(229,060)</u>
Business-type activities							
Revolving loan fund	46,624	8,045	-	-	-	(38,579)	(38,579)
Total Primary Government	<u>\$ 2,711,968</u>	<u>\$ 561,895</u>	<u>\$ 559,465</u>	<u>\$ 1,322,969</u>	<u>(229,060)</u>	<u>(38,579)</u>	<u>(267,639)</u>
General revenues							
Taxes							
Property taxes, levied for general purposes					503,196	-	503,196
Insurance premium taxes, levied for general purposes					632,427	-	632,427
Penalties and interest on delinquent taxes and waste fees					9,766	-	9,766
Sales tax received					-	228	228
Licenses and permit fees							
Payroll/gross receipts license fees					287,655	-	287,655
Vehicle sticker license					38,694	-	38,694
Permits					2,402	-	2,402
Franchise fees					45,267	-	45,267
Licenses					48,801	-	48,801
Code enforcement/blight abatement					9,253	-	9,253
Miscellaneous					72,051	-	72,051
Police reports/citations					3,922	-	3,922
Unrestricted investment earnings					37	-	37
Transfers					(462,270)	462,270	-
Total general revenues and transfers					<u>1,191,201</u>	<u>462,498</u>	<u>1,653,699</u>
Change in net assets					962,141	423,919	1,386,060
Net assets, beginning					2,951,303	-	2,951,303
Net assets, ending					<u>\$ 3,913,444</u>	<u>\$ 423,919</u>	<u>\$ 4,337,363</u>

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

CITY OF LUDLOW, KENTUCKY
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2012

	General Fund	Special Revenue Funds	Total Governmental Funds 2012	Memo Only 2011
ASSETS				
Cash and cash equivalents	\$ 98,054	\$ 428,024	\$ 526,078	\$ 174,963
Accounts receivable	538	10,067	10,605	42,655
Taxes receivable	22,213	-	22,213	14,915
Insurance tax receivable	127,184	-	127,184	123,713
Grants receivable	34,440	-	34,440	-
Due from other funds	-	150,323	150,323	50,324
TOTAL ASSETS	\$ 282,429	\$ 588,414	\$ 870,843	\$ 406,570
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ -	\$ 350,000	\$ 350,000	\$ 1,693
Accrued payroll and payroll taxes	1,329	-	1,329	38,468
Due to other funds	150,323	-	150,323	50,324
TOTAL LIABILITIES	151,652	350,000	501,652	90,485
FUND BALANCES				
Reported in:				
General fund - unassigned	130,777	-	130,777	109,072
Community development block grant fund - restricted	-	50	50	48
Municipal road aid fund - restricted	-	230,555	230,555	162,467
Neighborhood stabilization program fund - restricted	-	667	667	89
Fire and EMS fund - committed	-	1,571	1,571	38,838
Rehabilitation fund - committed	-	5,571	5,571	5,571
TOTAL FUND BALANCES	130,777	238,414	369,191	316,085
TOTAL LIABILITIES AND FUND BALANCES	\$ 282,429	\$ 588,414	\$ 870,843	\$ 406,570
Total governmental fund balances			\$ 369,191	
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets of \$30,462,217, net of accumulated depreciation of (\$26,171,276), used in governmental activities are not financial resources and, therefore, are not reported in the funds.				
			4,290,941	
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.				
Capital leases			(87,456)	
Compensated absences			(44,622)	
Notes payable			(614,610)	
Net assets of governmental activities			\$ 3,913,444	

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

CITY OF LUDLOW, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2012

	Governmental Fund Types		Totals	
	General	Special Revenue	2012	Memo Only 2011
REVENUES				
General fund revenue	\$ 2,559,224	\$ -	\$ 2,559,224	\$ 2,215,496
Rehab revenue	-	-	-	4
NSP revenue	-	237,553	237,553	338,214
Municipal road aid fund revenue	-	95,732	95,732	101,181
Fire and EMS revenue	-	734,929	734,929	421,714
CDBG revenue	-	462,317	462,317	-
TOTAL REVENUES	<u>2,559,224</u>	<u>1,530,531</u>	<u>4,089,755</u>	<u>3,076,609</u>
EXPENDITURES				
Current				
Administrative expenditures	933,259	-	933,259	884,366
Police department expenditures	967,535	-	967,535	963,364
Public works expenditures	202,727	-	202,727	201,389
Park department expenditures	-	-	-	6,200
Main Street / Renaissance expenditures	-	-	-	15,099
Rehab expenditures	-	-	-	161
NSP expenditures	-	10,024	10,024	21,890
Municipal aid expenditures	-	21,131	21,131	35,888
Fire and EMS expenditures	-	385,547	385,547	348,707
Capital outlay	375,780	577,559	953,339	505,510
Debt service	85,169	40,253	125,422	127,627
TOTAL EXPENDITURES	<u>2,564,470</u>	<u>1,034,514</u>	<u>3,598,984</u>	<u>3,110,201</u>
EXCESS (DEFICIT) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(5,246)</u>	<u>496,017</u>	<u>490,771</u>	<u>(33,592)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	2,346	4,212	6,558	12,340
Transfers out	-	(468,828)	(468,828)	(12,340)
Loan proceeds	24,605	-	24,605	15,977
Proceeds from disposal of property	-	-	-	117,875
TOTAL OTHER FINANCING SOURCES (USES)	<u>26,951</u>	<u>(464,616)</u>	<u>(437,665)</u>	<u>133,852</u>
EXCESS (DEFICIT) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES	<u>21,705</u>	<u>31,401</u>	<u>53,106</u>	<u>100,260</u>
FUND BALANCES BEGINNING OF YEAR	<u>109,072</u>	<u>207,013</u>	<u>316,085</u>	<u>215,825</u>
FUND BALANCES END OF YEAR	<u>\$ 130,777</u>	<u>\$ 238,414</u>	<u>\$ 369,191</u>	<u>\$ 316,085</u>

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

<p>CITY OF LUDLOW, KENTUCKY RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES For the Year Ended June 30, 2012</p>
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Net change in fund balances - total governmental funds \$ 53,106

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense.

Capital asset purchases	953,339
Depreciation expense	(149,604)

The proceeds of loans and leases increase revenue in the governmental funds, but the proceeds increase long-term liabilities in the statement of net assets.	(24,605)
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Repayment of note and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	109,527
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Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.

Compensated absences	20,378
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Change in net assets of governmental activities	\$ 962,141
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The accompanying notes are an integral part of these financial statements.

CITY OF LUDLOW, KENTUCKY STATEMENT OF NET ASSETS - REVOLVING LOAN FUND June 30, 2012

ASSETS

Current Assets	
Cash and cash equivalents	\$ 7,836
Total Current Assets	<u>7,836</u>
Noncurrent Assets	
Equipment - Riverside Marketplace	462,315
Less accumulated depreciation	<u>(46,232)</u>
Total Noncurrent Assets	<u>416,083</u>

TOTAL ASSETS	\$ 423,919
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NET ASSETS

Invested in capital assets, net of related debt	\$ 416,083
Restricted	<u>7,836</u>

TOTAL NET ASSETS	\$ 423,919
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The accompanying notes are an integral part of the financial statements.

CITY OF LUDLOW, KENTUCKY STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - REVOLVING LOAN FUND For the Year Ended June 30, 2012

OPERATING REVENUES

Lease principal income	\$	6,592
Lease interest income		1,453
Sales tax collected		228
		<hr/>

TOTAL OPERATING REVENUES

8,273

OPERATING EXPENSES

Bank fees		168
Depreciation expense		46,232
Sales tax remitted		224
		<hr/>

TOTAL OPERATING EXPENSES

46,624

OPERATING LOSS

(38,351)

TRANSFERS IN, NET

462,270

CHANGE IN NET ASSETS

423,919

NET ASSETS, JULY 1

-

NET ASSETS, JUNE 30

\$ 423,919

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

CITY OF LUDLOW, KENTUCKY STATEMENT OF CASH FLOWS - REVOLVING LOAN FUND For the Year Ended June 30, 2012
--

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from customers	\$ 8,273
Paid to suppliers for goods and services	<u>(392)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>7,881</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers in	462,315
Transfers (out)	<u>(45)</u>
NET CASH PROVIDED BY (USED IN) NONCAPITAL FINANCING ACTIVITIES	<u>462,270</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of fixed assets	<u>(462,315)</u>
NET CASH PROVIDED BY (USED IN) CAPITAL AND FINANCING ACTIVITIES	<u>(462,315)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7,836
CASH AND CASH EQUIVALENTS-BEGINNING OF YEAR	<u>-</u>
CASH AND CASH EQUIVALENTS-END OF YEAR	<u>\$ 7,836</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating loss	\$ (38,351)
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation	<u>46,232</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 7,881</u>

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

CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Ludlow, Kentucky, (City) have been prepared in conformity with generally accepted accounting principles (GAAP) of the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

Reporting Entity

The City of Ludlow operates under a Mayor and Council form of government. The City is governed by an elected mayor and six council members. As required by generally accepted accounting principles, these financial statements present the primary government.

Government-Wide Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for all of the non-fiduciary activities of the primary government. Generally, the effect of inter-fund activity has been removed from these statements. Governmental activities, which are generally supported by taxes and City general revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expense and program revenues associated with a distinct functional activity. Program revenues include: charges for services, which report fees, fines and forfeitures, and other charges to users of the City's services; operating grants and contributions, which finance annual operating activities including restricted investment income; and capital grants and contributions, which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions for use on these programs. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as another financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as reductions of the related liability, rather than as expenditures.

Fund Financial Statements

Fund financial statements, as applicable, are provided for governmental, proprietary, and fiduciary funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns for non-major funds.

CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2012

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The City's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide financial statements reflect the economic resources measurement focus and the accrual basis of accounting, generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. If applicable, the proprietary and fiduciary fund financial statements and financial statements of City component units also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied. Grants and similar items are recognized as revenues when grantor eligibility requirements are met.

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. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related 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 in the year when payment is due.

Major revenue sources where accrual is most likely to occur include property taxes, insurance premium taxes and payroll/gross receipts license fees.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements. 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 needed.

CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2012

Fund Types

The City reports the following governmental funds:

General Fund

This fund is the government's primary operating fund. This fund accounts for all financial resources of the general government not accounted for in another fund.

Special Revenue Funds

These funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specific purposes. Currently, the City maintains special revenue funds for its Community Development Block Grant, Municipal Road Aid, Rehabilitation, Fire and EMS, and the Neighborhood Stabilization Program.

Proprietary Fund

The proprietary fund accounts for the activities of the City's Revolving Loan Fund program.

Cash and Cash Equivalents and Investments

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with an initial maturity date within three months of the date acquired by the City. The City is authorized by state statute to invest in:

1. Obligations of the United States and of its agencies and instrumentalities.
2. Certificates of deposit.
3. Bankers acceptances.
4. Commercial paper.
5. Bonds of other state or local governments.
6. Mutual funds.

Interest Rate Risk – In accordance with City policy, interest rate risk is limited by investing only in certificates of deposit with the highest rate of return and with the maximum security of principal. Investments are undertaken in a manner that seeks to ensure the preservation of capital in its portfolio. As of June 30, 2012, the City has no investments.

Credit Risk – The City limits its investments to certificates of deposit issued by banks within the Commonwealth of Kentucky; these certificates have no credit rating applied.

Custodial Credit Risk – For deposits, this is the risk that, in the event of a bank failure, the City's deposits will not be returned. See Note C for further information on the City's deposits.

CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2012

Capital Assets

The City's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and are comprehensively reported in the government-wide financial statements. The City maintains infrastructure asset records consistent with all other capital assets. General capital assets are those assets not specifically related to activities reported in proprietary funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets. If applicable, capital assets used by the proprietary fund are reported in the business type activities column of the government-wide statement of net assets.

All fixed assets are valued at historical cost or historical estimated cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

The City has elected to capitalize assets with a cost of \$500 or more. Capital assets are depreciated using the straight-line method in the government-wide financial statements. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective statement of net assets. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss recorded in operations.

Estimated useful lives for depreciable assets are as follows:

Buildings	40 years
Building improvements	10-20 years
Public domain infrastructure	25-40 years
Vehicles	5-10 years
Furniture and equipment	3-5 years

Compensated Absences

It is the City's policy to permit employees to accumulate earned, but unused vacation. There is a liability for unpaid vacation. All vacation is accrued when incurred in the government-wide financial statements. The balance of accrued compensated absences at June 30, 2012, as reported in the government-wide financial statements, is \$44,622.

Long-Term Debt

In the government-wide financial statements, outstanding debt is reported as a liability. The governmental fund financial statements recognize the proceeds of debt as other financing sources of the current period. Payments of principal and interest are reported as expenditures. The proprietary fund financial statements recognize a deferred revenue balance as a long-term liability. This deferral is reduced annually as payments are received (and recognized as revenue) on the City's outstanding loans receivable from its Revolving Loan Fund program. Total long term debt reported in the government-wide financial statements at June 30, 2012 was \$702,066, of which \$71,574 is due within the next year.

CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2012

Fund Equity

Net assets are the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, are capital assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction or improvement of those assets.

In the governmental fund financial statements, fund balances have different classifications based upon their purposes, under GASB 54. The fund balance of the general fund is classified as *unassigned*, which represents funds not classified as non-spendable, committed, restricted, or assigned. The fund balances of the community development block grant fund, municipal road aid fund, and neighborhood stabilization program fund, which are special revenue funds, are classified as *restricted*, as funds are externally restricted by the agency providing funding. The fund balances of the fire and EMS fund and the rehabilitation fund, other special revenue funds, are classified as *committed*, as these funds have a specific purpose that has been designated internally.

Inter-Fund Receivables/Payables

During the course of operations, it is possible for transactions to occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

Inventories and Prepaid Items

If applicable, inventories in the governmental funds consist of expendable supplies held for consumption stated on a first in, first out basis. They are reported at cost and as expenditures at the time individual inventory items are used.

Prepaid items record payments to vendors that benefit future reporting periods. Both inventories and prepaid items are similarly reported in government-wide and fund financial statements.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities, and the reported revenues and expenditures. Actual results could differ from those estimates.

Comparative Data

Comparative total data for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the government's financial position and operations. However, comparative data has not been presented in all statements because their inclusion would make certain statements unduly complex and difficult to understand.

<p>CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2012</p>
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NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

- 1) In accordance with City code, prior to June 1, the Mayor submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year.
- 2) Public hearings are conducted to obtain taxpayer comment.
- 3) Prior to June 30, the budget is legally enacted through passage of an ordinance.
- 4) The Mayor is required by Kentucky Revised Statutes to present a quarterly report to the City Council explaining any variance from the approved budget.
- 5) Appropriations continue in effect until a new budget is adopted.
- 6) The City Council may authorize supplemental appropriations during the year.

Expenditures may not legally exceed budgeted appropriations at the function level. Any revisions to the budget that would alter total revenues and expenditures of any fund must be approved by the council.

The following functions had expenditures in excess of legally adopted appropriations for the year ended June 30, 2012:

<u>Budget Line</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Capital improvements	\$ 588,759	\$ 725,780	\$ 137,021

Excess of expenditures over budgeted appropriations in capital improvements exists due to reclassification of expenses for budgetary presentation purposes out of the general fund and the fire/EMS fund.

NOTE C – DEPOSITS

The City maintains deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As allowed by law, the depository bank should pledge securities along with FDIC insurance at least equal to the amount on deposit at all times.

As of June 30, 2012, the City had cash and cash equivalents of \$533,914. All cash balances not covered by FDIC insurance are fully collateralized.

CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2012

NOTE D – RECEIVABLES

Property taxes are assessed as of January 1. Taxes are levied on October 1 and are due and payable on or before October 31. The City bills and collects its own property taxes. An adjustment is made at June 30 to recognize property taxes levied during the year which are still receivable at year end.

NOTE E – CAPITAL ASSETS AND DEPRECIATION

The following is a summary of changes in capital assets for the City’s governmental activities for the year ended June 30, 2012:

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
Land (not depreciated)	\$ 1,066,000	\$ -	\$ -	\$ 1,066,000
Assets held for sale (not depreciated)	367,782	227,559	-	595,341
Infrastructure	24,487,039	313,942	-	24,800,981
Buildings and equipment	2,459,200	37,233	-	2,496,433
Vehicles	1,128,857	374,605	-	1,503,462
Fixed Assets	29,508,878	953,339	-	30,462,217
Accumulated Depreciation	(26,021,672)	(149,604)	-	(26,171,276)
Net Fixed Assets	<u>\$ 3,487,206</u>	<u>\$ 803,735</u>	<u>\$ -</u>	<u>\$ 4,290,941</u>

The following is a summary of changes in capital assets for the City’s business-type activities in its Revolving Loan Fund for the year ended June 30, 2012:

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
Equipment - Riverside Marketplace	\$ -	\$ 462,315	\$ -	\$ 462,315
Accumulated Depreciation	-	(46,232)	-	(46,232)
Net Fixed Assets	<u>\$ -</u>	<u>\$ 416,083</u>	<u>\$ -</u>	<u>\$ 416,083</u>

NOTE F – OPERATING LEASE

On April 8, 2011, The City has entered into an operating lease agreement with the owner of a new business, the Riverside Marketplace, where the owner will lease equipment owned by the City. Lease receipts by the City will be used to develop its Revolving Loan Fund in order to assist other local businesses. The term of the lease is 7 years, and first payment on the lease was made on January 1, 2012. The annual interest rate on the lease is 1.00%. Riverside Marketplace has the option to purchase the leased equipment at the end of the lease term, which is January 1, 2019, with an additional payment. This option, however, does not meet the requirements of treating the lease as a capital lease.

CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2012

Annual lease payments are as follows:

Fiscal Year			
Ending			
June 30,	Principal	Interest	Payment
2013	\$ 19,918	\$ 4,214	\$ 24,132
2014	20,118	4,014	24,132
2015	20,320	3,812	24,132
2016	20,525	3,607	24,132
2017	20,737	3,395	24,132
2018-2019	329,105	5,202	334,307
Total	\$ 430,723	\$ 24,244	\$ 454,967

NOTE G – LONG-TERM DEBT

Long-term debt consists of the following:

Fire Truck/Ambulance

The City executed a lease-purchase agreement on October 15, 1997 for an ambulance and fire truck capitalized at a cost of \$465,000. This secured lease was refinanced during March 2003 for a 2.68% interest rate. The original term of the lease-purchase agreement is 15 years. Annual lease payment requirements to maturity, including principal and interest portions, are as follows:

Fiscal Year			
Ending			
June 30,	Principal	Interest	Payment
2013	\$ 19,859	\$ 270	\$ 20,129
Total	\$ 19,859	\$ 270	\$ 20,129

Equipment Capital Lease – Fifth Third Bank

On April 17, 2006, the City executed a capital lease with Fifth Third Bank in the amount of \$148,000 for the purchase of three police cruisers and the purchase of a pick-up truck for Fire & EMS use. Final payment on this lease in the amount of \$28,917 was made during the year ended June 30, 2012.

Equipment Capital Leases – Farmers Bank and Capital Trust Company

On September 26, 2007, the City executed a five-year lease with Farmers Bank and Capital Trust Company for the purchase of two police vehicles at a total cost of \$42,565. This secured lease carries an interest rate of 5.94%. The final payment is to be made in October 2012.

CITY OF LUDLOW, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Remaining annual debt service requirements are as follows:

Fiscal Year			
Ending			
June 30,	Principal	Interest	Payment
2013	\$ 9,551	\$ 583	\$ 10,134
Total	\$ 9,551	\$ 583	\$ 10,134

On December 11, 2008, the City executed a second lease with Farmers Bank and Capital Trust Company for the purchase of a police vehicle at a cost of \$20,756. This secured lease carries an interest rate of 4.29% and matures on November 1, 2013. Remaining annual debt service requirements are as follows:

Fiscal Year			
Ending			
June 30,	Principal	Interest	Payment
2013	\$ 4,340	\$ 372	\$ 4,712
2014	4,457	182	4,639
Total	\$ 8,797	\$ 554	\$ 9,351

On November 30, 2009, the City executed a third lease with Farmers Bank and Capital Trust Company for the purchase of new police vehicles and radio equipment at \$29,500. This secured lease carries an interest rate of 4.41% and matures on December 1, 2014. The first payment on this lease was made in November 2010. Annual debt service requirements are as follows:

Fiscal Year			
Ending			
June 30,	Principal	Interest	Payment
2013	\$ 5,910	\$ 809	\$ 6,719
2014	6,176	543	6,719
2015	6,345	343	6,688
Total	\$ 18,431	\$ 1,695	\$ 20,126

Capital Lease – KLC Funding Trust

The City executed a 3.00% interest, 25-year \$700,000 capital lease payable effective July 18, 2008 with the Kentucky League of Cities Funding Trust in order to fund its new Municipal Center. The termination date of this secured lease is July 1, 2033. The City is to make monthly payments to the lease's trustee, the Bank of New York Mellon.

CITY OF LUDLOW, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

The remaining annual debt service requirements are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Payment
2013	\$ 21,072	\$ 18,019	\$ 39,091
2014	21,714	17,378	39,092
2015	21,462	15,873	37,335
2016	22,246	16,695	38,941
2017	23,159	15,954	39,113
2018-2033	504,957	145,781	650,738
Total	\$ 614,610	\$ 229,700	\$ 844,310

Capital Lease – GE Capital Solutions

On September 15, 2010, the City executed a three-year lease with GE Capital Solutions for the purchase of Bobcat equipment at a cost of \$15,977. This secured lease carries no interest and matures on September 15, 2013. Annual debt service requirements are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Payment
2013	\$ 5,328	\$ -	\$ 5,328
2014	885	-	885
Total	\$ 6,213	\$ -	\$ 6,213

Capital Lease – Lease One Magnolia

The City executed a 5-year lease with Lease One Magnolia LLC for the purchase of an administrative vehicle at a cost of \$24,605 in 2012. This secured lease carries an interest rate of 4.00% and matures on December 1, 2016. Remaining annual debt service requirements are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Payment
2013	\$ 4,698	\$ 816	\$ 5,514
2014	4,630	884	5,514
2015	4,863	651	5,514
2016	5,096	418	5,514
2017	5,318	195	5,513
Total	\$ 24,605	\$ 2,964	\$ 27,569

<p>CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2012</p>
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NOTE H – INDEBTEDNESS SUMMARY

The changes in long-term indebtedness for 2012 are as follows:

	June 30, 2011	Additions	Retirements	June 30, 2012
Fifth Third Bank 1997 Capital Lease	\$ 58,790	\$ -	\$ (38,931)	\$ 19,859
Farmers Bank & Trust Leases	55,594	-	(18,815)	36,779
Fifth Third Bank 2006 Lease	28,917	-	(28,917)	-
GE Capital Solutions Lease	11,539	-	(5,326)	6,213
KLC Funding Trust Lease	632,148	-	(17,538)	614,610
Lease One Magnolia Lease	-	24,605	-	24,605
Subtotal	786,988	\$ 24,605	\$ (109,527)	702,066
Less: current portion of long-term debt	(112,440)			(71,574)
Net Fixed Assets	<u>\$ 674,548</u>			<u>\$ 630,492</u>

NOTE I – CONTINGENT LIABILITIES

The City is at risk for possible litigation due to the nature of the City officials' enforcement of various codes and regulations, such as zoning and building codes.

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City Attorney, the resolution of these matters will not result in a liability to the City.

NOTE J – EMPLOYEE RETIREMENT SYSTEMS

County Employees Retirement System (CERS)

All full-time administrative employees of the City, along with uniform police who work at least 100 hours per month, participate in the County Employees Retirement System (CERS). Under the provisions of Kentucky Revised Statute 61.645, the Board of Trustees of Kentucky Retirement Systems administers the CERS. The plan issues separate financial statements which may be obtained by request from Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601.

Plan Description - CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in positions of each county and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments (COLA) are provided at the discretion of the state legislature.

Hazardous Contributions - For the year ended June 30, 2012, plan members were required to contribute 8% of their annual creditable compensation. Any plan members that entered the retirement plan after August 31, 2008 are required to contribute an additional 1% of their annual creditable compensation for health insurance. The state was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute (KRS) Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis

CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2012

of an annual valuation proceeding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 2012, participating employers contributed an actuarially determined rate set by the Board of 35.76% of each employee's creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

Participating non-hazardous employees contribute 5% of their annual creditable compensation. Employer contribution rates are intended to fund the normal cost on a current basis plus 1% of un-funded past service costs per annum plus interest at the actuarial assumed rate. Such contribution rates are determined by the Board of Trustees of Kentucky Retirement Systems each biennium. The City contributed 18.96% of the non-hazardous duty employee's compensation during the year ended June 30, 2012.

For the year ended June 30, 2012, the City contributed \$243,251 to this plan.

NOTE K – CLAIMS AND JUDGMENTS

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

NOTE L – RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation and general liability coverage, the City participates in the Kentucky Municipal Risk Management Association. This public entity operates as a common risk management and insurance program for all municipalities. The City has effectively managed risk through various employee education and prevention programs.

NOTE M – ECONOMIC DEPENDENCY

The City's general fund receives 25% of its revenues from insurance premium taxation. This tax is not regulated on a city level, but rather a state level. If legislation were imposed to delete this tax, the City would be negatively impacted.

<p>CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2012</p>
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NOTE N – FEDERAL GRANT AWARDS

The following federal grants were awarded to the City of Ludlow, Kentucky:

Program	Grant Period	Total Grant Awarded	Grant Funds Received 2012
HUD Community Development Block Grant (Riverside Marketplace)	11/18/10-12/31/12	\$ 470,000	\$ 462,317
HUD Neighborhood Stabilization Program 1 Grant	12/4/09-6/1/13	835,998	237,553
FEMA Assistance to Firefighters Grant	1/4/12-1/3/13	332,500	332,500
FEMA Hazard Mitigation Grant Program (Generator)	2/17/11-2/17/12	38,897	34,440
FHWA TEA-21 Grant, Ludlow Streetscape (Elm Street)	4/7/10-4/6/13	398,000	256,159
			<u>\$ 1,322,969</u>

NOTE O – SUBSEQUENT EVENTS

The City's management has evaluated and considered the need to recognize or disclose subsequent events through February 28, 2013, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the year ended June 30, 2012, have not been evaluated by the City's management.

CITY OF LUDLOW, KENTUCKY
BUDGETARY COMPARISON SCHEDULE- BUDGET TO ACTUAL- GENERAL FUND, FIRE/EMS FUND, COMMUNITY DEVELOPMENT BLOCK GRANT FUND,
AND MUNICIPAL ROAD AID FUND
For the Year Ended June 30, 2012

	Budgeted Amounts				Final	General	Fire/EMS	Community Development Block Grant	Municipal Road Aid	Variance with Final Budget Favorable (Unfavorable)
	Original	Revisions								
Budgetary fund balance, July 1, 2011	\$ (94)	\$ 94	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Resources (inflows)										
General government revenue	2,219,451	212	2,219,663	2,219,663	2,268,625	-	-	-	-	48,962
Municipal road aid	85,500	21,368	106,868	106,868	-	-	-	95,732	-	(11,136)
Fire property assessment tax fund	352,000	(8,557)	343,443	343,443	-	343,444	-	-	-	1
Other fire revenue	61,150	(3,007)	58,143	58,143	-	58,985	-	-	-	842
CDBG grant income	500,000	(37,683)	462,317	462,317	-	-	462,317	-	-	-
Capital improvements fund	315,500	510,712	826,212	826,212	290,599	332,500	-	-	-	(203,113)
Prior year carryforward	-	-	-	-	-	-	-	-	-	-
Transfers in	-	-	-	-	2,346	3,604	-	-	-	5,950
Amounts available for appropriation	3,533,507	483,139	4,016,646	4,016,646	2,670,642	777,371	462,365	258,199	151,931	
Charges to appropriations (outflows)										
Legislative and administrative	993,519	(30,229)	963,290	963,290	937,180	-	-	-	-	26,110
Police	1,020,305	(3,088)	1,017,217	1,017,217	1,018,335	-	-	-	-	(1,118)
Public works	205,627	2,943	208,570	208,570	208,570	-	-	-	-	-
CDBG grant	500,000	(37,683)	462,317	462,317	-	-	-	-	-	462,317
Capital improvements fund	315,500	273,259	588,759	588,759	375,780	350,000	-	-	-	(137,021)
Municipal road aid	85,500	(64,369)	21,131	21,131	-	-	-	21,131	-	-
Fire/EMS fund	413,150	12,736	425,886	425,886	-	425,800	-	-	-	86
Transfers out	-	-	-	-	-	-	462,315	6,513	-	(468,828)
Total charges to appropriations	3,533,601	153,569	3,687,170	3,687,170	2,539,865	775,800	462,315	27,644	(118,454)	
Budgetary fund balance, June 30, 2012	\$ (94)	\$ 329,570	\$ 329,476	\$ 329,476	\$ 130,777	\$ 1,571	\$ 50	\$ 230,555	\$ 33,477	

Actual balances shown have been reclassified from the Statement of Revenues, Expenditures, and Changes in Fund Balances for budgetary presentation purposes.

CITY OF LUDLOW, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - ALL SPECIAL REVENUE FUNDS
For the Year Ended June 30, 2012

	Rehabilitation Fund	Neighborhood Stabilization Program	Municipal Road Aid Fund	Fire and EMS	Community Development Block Grant	Totals Memo Only	
						2012	2011
REVENUES							
Rehab revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4
NSP revenue	-	237,553	-	-	-	237,553	338,214
Municipal road aid revenue	-	-	95,732	-	-	95,732	101,181
Fire and EMS revenue	-	-	-	734,929	-	734,929	421,714
CDBG revenue	-	-	-	-	462,317	462,317	-
TOTAL REVENUES	-	237,553	95,732	734,929	462,317	1,530,531	861,113
EXPENDITURES							
Current							
Rehab expenditures	-	-	-	-	-	-	161
NSP expenditures	-	10,024	-	-	-	10,024	21,890
Municipal road aid expenditures	-	-	21,131	-	-	21,131	35,888
Fire and EMS expenditures	-	-	-	385,547	-	385,547	348,707
Capital outlay expenditures	-	227,559	-	350,000	-	577,559	344,519
Debt service expenditures	-	-	-	40,253	-	40,253	40,253
TOTAL EXPENDITURES	-	237,583	21,131	775,800	-	1,034,514	791,418
EXCESS/(DEFICIT) OF REVENUES OVER/(UNDER)EXPENDITURES BEFORE OTHER SOURCES							
	-	(30)	74,601	(40,871)	462,317	496,017	69,695
OTHER FINANCING SOURCES (USES)							
Transfers in	-	608	-	3,604	-	4,212	48
Transfers out	-	-	(6,513)	-	(462,315)	(468,828)	(12,340)
TOTAL OTHER FINANCING SOURCES (USES)	-	608	(6,513)	3,604	(462,315)	(464,616)	(12,292)
EXCESS/(DEFICIT) OF REVENUES OVER/(UNDER)EXPENDITURES							
	-	578	68,088	(37,267)	2	31,401	57,403
FUND BALANCES BEGINNING OF YEAR	5,571	89	162,467	38,838	48	207,013	149,610
FUND BALANCES END OF YEAR	\$ 5,571	\$ 667	\$ 230,555	\$ 1,571	\$ 50	\$ 238,414	\$ 207,013

CITY OF LUDLOW, KENTUCKY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended June 30, 2012

Federal Grantor/Program Title	Federal CFDA Number	Expenditures
<u>U.S. Department of Housing and Urban Development</u>		
Community Development Block Grant	14.228	\$ 462,317
Neighborhood Stabilization Program 1 Grant	14.228	237,553
<u>U.S. Department of Homeland Security</u>		
Assistance to Firefighters Grant	97.044	332,500
Hazard Mitigation Grant	97.039	34,440
<u>U.S. Department of Transportation</u>		
Federal Highway Administration TEA-21 Grant	20.205	256,159
Total Federal Financial Assistance		\$ 1,322,969

Notes for the preparation of the Schedule of Expenditures of Federal Awards

Note 1 - Basis of Presentation

The schedule of expenditures of federal awards includes federal grant activity of the City of Ludlow, Kentucky, and is presented on the accrual basis of accounting. The information is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*; therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



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

**To the Mayor and City Council
City of Ludlow, Kentucky**

We have audited the financial statements of the governmental activities and each major fund of the City of Ludlow, Kentucky (City), as of and for the year ended June 30, 2012, which collectively comprise the City of Ludlow, Kentucky's basic financial statements and have issued our report thereon dated February 28, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

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



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Ludlow, Kentucky's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

Non-Compliance Finding at June 30, 2012: The City had \$578,724 on deposit with the Huntington Bank, which, at that date, had \$250,000 of FDIC insurance and \$0 in collateral pledged to the City. Therefore, \$328,724 in public funds was left unsecured, a violation of the Kentucky Revised Statute 91A.060.

Management Comment: *In the future, the City will work to anticipate significant deposits that can cause bank account balances to exceed FDIC insurance coverage throughout the year. The City will communicate with the bank to ensure that when collateral is required to secure the excess funds, the bank will provide the necessary collateral.*

We noted certain matters that we reported to management of the City of Ludlow, Kentucky in a separate letter dated February 28, 2013.

This report is intended for the information and use of the finance committee, management, and city council members and is not intended to be and should not be used by anyone other than these specified parties.

Van Gorder, Walker & Co., Inc.

Van Gorder, Walker & Co., Inc.
Erlanger, Kentucky
February 28, 2013



Van Gorder, Walker & Co., Inc.
Certified Public Accountants

Charles A. Van Gorder, CPA
John P. Walker, CPA, MBA
Lori A. Owen, CPA
John R. Chamberlin, CPA, MBA
Members of AICPA & KyCPA
Licensed in Kentucky & Ohio

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

To the Honorable Mayor and
Members of the Council
City of Ludlow, Kentucky

Compliance

We have audited the City of Ludlow, Kentucky's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Ludlow, Kentucky's major federal programs for the year ended June 30, 2012. The major federal programs of the City of Ludlow, Kentucky are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Ludlow, Kentucky's management. Our responsibility is to express an opinion on the City of Ludlow, Kentucky's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Ludlow, Kentucky's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Ludlow, Kentucky's compliance with those requirements.

In our opinion, the City of Ludlow, Kentucky complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.



Internal Control Over Compliance

The management of the City of Ludlow, Kentucky is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Ludlow, Kentucky's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Ludlow, Kentucky's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

The City of Ludlow, Kentucky's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of Ludlow, Kentucky's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Honorable Mayor and Council; management; and federal awarding agencies and pass-through agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Van Gorder, Walker & Co., Inc.

Van Gorder, Walker & Co., Inc.
Erlanger, Kentucky
February 28, 2013

<p>CITY OF LUDLOW, KENTUCKY SCHEDULE OF FINDINGS AND QUESTIONED COSTS Year Ended June 30, 2012</p>

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes X No
- Significant deficiencies identified? Yes X None reported

Noncompliance material to financial statements noted Yes X No

Federal Awards

Internal Control Over Major Programs:

- Material weakness(es) identified? Yes X No
- Significant deficiencies identified? Yes X None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133: Yes X No

Identification of major programs:	CFDA No.
Federal Program or Cluster	-----
----- Community Development Block Grant	14.228
Assistance to Firefighters Grant	97.044

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? Yes X No

II. FINDINGS - FINANCIAL STATEMENTS AUDIT

No matters were reported

III. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

No matters were reported