

**CITY OF LUDLOW, KENTUCKY**

**FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2014**

# CITY OF LUDLOW, KENTUCKY

## FINANCIAL STATEMENTS

For the Year Ended June 30, 2014

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**CITY OF LUDLOW, KENTUCKY**

**CITY OFFICIALS**

**For the Year Ended June 30, 2014**

**Council Members**

Kenneth Wynn, Mayor

Tom Amann

Josh Boone

Amy Clary

Joyce McMullin

Bill Mullins

Randy Wofford

**City Management**

Elishia Chamberlain, City Administrator

Laurie Sparks, City Clerk

Alice Margolen, Treasurer

Tom Miller, Attorney

## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ludlow, Kentucky, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

#### ***-Management's Responsibility for the Financial Statements***

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

#### ***-Auditor's Responsibility***

Our responsibility is to express 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 the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

***-Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Ludlow, Kentucky as of June 30, 2014 and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

***-Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 5 through 9 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 basic financial statements taken as a whole. The budgetary comparison schedule on page 30 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The budgetary comparison schedule has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on it.

***-Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The combining non-major special revenue funds schedules on page 31 are supplementary information and are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.



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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2015 on our consideration of the City of Ludlow, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Ludlow, Kentucky's internal control over financial reporting and compliance.

*Van Gorder, Walker & Co., Inc.*

Van Gorder, Walker, & Co., Inc.  
Erlanger, Kentucky  
June 17, 2015

## **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 Position 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 \$84,978, a decrease of 70% from 2013.
- The City continues to utilize federal stimulus funds to renovate blighted properties for resale under the Neighborhood Stabilization Program.
- 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 position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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, Acquisition, 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 position 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 position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$3,154,222 at June 30, 2014. A comparison of net position in fiscal year 2014 and 2013 follows:

	<u>2014</u>	<u>2013</u>
Current assets	\$ 360,442	\$ 382,621
Capital assets, net	<u>4,684,360</u>	<u>4,439,604</u>
Total assets	<u>5,044,802</u>	<u>4,822,225</u>
Total liabilities	<u>1,890,580</u>	<u>1,154,426</u>
Total net position	<u>\$ 3,154,222</u>	<u>\$ 3,667,799</u>

The largest portion of the City's net position 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 governmental revenue and expenditures for the fiscal years ended June 30, 2014 and 2013.

	<u>2014</u>	<u>2013</u>
<b>Revenues</b>		
Charges for services	\$ 401,753	\$ 504,448
Operating grants and contributions	943,616	678,142
Capital grants and contributions	32,613	255,637
General Revenues		
Taxes	1,148,280	1,099,344
License and permit fees	552,865	427,964
Code Enforcement Board	53,007	64,776
Miscellaneous	31,126	30,121
Loss on disposal of assets	(423,911)	(154,260)
Unrestricted investment earnings	52	48
Total revenues:	<u>2,739,401</u>	<u>2,906,220</u>
<b>Expenses</b>		
Legislative and administrative	935,806	1,090,432
Fire and EMS expenses	879,263	630,203
Municipal aid expenses	92,774	194,847
Main Street/Renaissance	157,184	42,597
Neighborhood Stabilization Program	9,012	5,000
Park department	33,072	18,655
Public safety	1,036,211	934,615
Public works	260,391	208,331
Rehab	83,525	5,096
Interest on long-term debt	42,896	16,518
Total expenses:	<u>3,530,134</u>	<u>3,146,294</u>
Transfers out to proprietary fund	<u>-</u>	<u>(5,571)</u>
<b>Change in Net Position</b>	<u>\$ (790,733)</u>	<u>\$ (245,645)</u>

## Business-type Activities

The City established a proprietary fund during the year ended June 30, 2013 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 Position within the Revolving Loan Fund.

The following represents a summary of the City's business-type activity revenue and expenses for the fiscal years ended June 30, 2014 and 2013.

	<u>2014</u>	<u>2013</u>
<b>Revenues</b>		
Charges for services	\$ 20,117	\$ 26,148
General Revenues		
Sales taxes	579	745
Total revenues:	<u>20,696</u>	<u>26,893</u>
<b>Expenses</b>		
Revolving loan fund	93,562	92,969
Total expenses:	<u>93,562</u>	<u>92,969</u>
Transfers in	-	5,571
<b>Change in Net Position</b>	<u>\$ (72,866)</u>	<u>\$ (60,505)</u>

## Capital Assets and Debt Administration

### Capital Assets

The capital assets were reported for the fiscal years ended as follows:

	<u>2014</u>	<u>2013</u>
Construction in Progress	\$ -	\$ 44,180
Land	1,066,000	1,066,000
Assets held for sale	185,545	584,815
Buildings/Equipment	3,146,280	2,496,433
Infrastructure	24,800,981	24,800,981
Vehicles	1,501,357	1,544,066
Totals	<u>\$ 30,700,163</u>	<u>\$ 30,536,475</u>

This year's net increase of \$163,688 in capital assets included:

Public works building	\$ 649,847
Assets held for sale property	24,642
Police vehicles	62,265
Deletions from CIP	(44,180)
Sale of assets held for sale	(423,912)
Disposal of police and fire vehicles	(104,974)
	<u>\$ 163,688</u>

## Debt

The long term debt for the City at June 30, 2014 and 2013 is as follows:

	Governmental Activities	
	2014	2013
KLC funding trust	\$ 587,034	\$ 607,706
Leases	282,825	287,095
Line of credit	-	209,760
2014B revenue bonds	963,125	-
Totals	<u>\$ 1,832,984</u>	<u>\$ 1,104,561</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 POSITION**  
**June 30, 2014**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 25,587	\$ 59,391	\$ 84,978
Accounts receivable	275,464	-	275,464
Capital assets			
Land (not depreciated)	1,066,000	-	1,066,000
Assets held for sale (not depreciated)	185,545	-	185,545
Property, plant and equipment, net of accumulated depreciation	3,201,658	231,157	3,432,815
<b>TOTAL ASSETS</b>	<b>4,754,254</b>	<b>290,548</b>	<b>5,044,802</b>
<b>LIABILITIES</b>			
Accounts payable			-
Accrued payroll and payroll taxes	6,809	-	6,809
Long-term liabilities			
Compensated absences	50,787	-	50,787
Due within one year	111,539	-	111,539
Due in more than one year	1,721,445	-	1,721,445
<b>TOTAL LIABILITIES</b>	<b>1,890,580</b>	<b>-</b>	<b>1,890,580</b>
<b>NET POSITION</b>			
Invested in capital assets	2,620,219	231,157	2,851,376
Restricted	-	59,391	59,391
Unrestricted	243,455	-	243,455
<b>TOTAL NET POSITION</b>	<b>\$ 2,863,674</b>	<b>\$ 290,548</b>	<b>\$ 3,154,222</b>

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

**CITY OF LUDLOW, KENTUCKY**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2014**

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) & Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Primary Government</b>							
<b>Governmental activities</b>							
Legislative and administrative	\$ 968,878	\$ 353,614	\$ -	\$ -	\$ (615,264)	\$ -	\$ (615,264)
Public safety	1,036,211	48,139	74,238	-	(913,834)	-	(913,834)
Public works	260,391	-	41,518	-	(218,873)	-	(218,873)
Neighborhood Stabilization Program	9,012	-	-	32,613	23,601	-	23,601
Streets	249,958	-	111,695	-	(138,263)	-	(138,263)
Fire and EMS	879,263	-	716,165	-	(163,098)	-	(163,098)
Acquisition	83,525	-	-	-	(83,525)	-	(83,525)
Interest on long-term debt	42,896	-	-	-	(42,896)	-	(42,896)
<b>Total governmental activities</b>	<b>3,530,134</b>	<b>401,753</b>	<b>943,616</b>	<b>32,613</b>	<b>(2,152,152)</b>	<b>-</b>	<b>(2,152,152)</b>
<b>Business-type activities</b>							
Revolving loan fund	93,562	20,117	-	-	-	(73,445)	(73,445)
<b>Total Primary Government</b>	<b>\$ 3,623,696</b>	<b>\$ 421,870</b>	<b>\$ 943,616</b>	<b>\$ 32,613</b>	<b>(2,152,152)</b>	<b>(73,445)</b>	<b>(2,225,597)</b>
<b>General revenues</b>							
Taxes							
Property taxes, levied for general purposes					615,586	-	615,586
Insurance premium taxes, levied for general purposes					522,078	-	522,078
Penalties and interest on delinquent taxes and waste fees					10,616	-	10,616
Sales tax received					-	579	579
Licenses and permit fees							
Payroll/gross receipts license fees					424,558	-	424,558
Vehicle sticker license					40,215	-	40,215
Franchise fees					41,103	-	41,103
Licenses and permits					46,989	-	46,989
Code enforcement/blight abatement					53,007	-	53,007
Loss on disposal of assets					(423,911)	-	(423,911)
Miscellaneous					31,126	-	31,126
Unrestricted investment earnings					52	-	52
<b>Total general revenues</b>					<b>1,361,419</b>	<b>579</b>	<b>1,361,998</b>
<b>Change in net position</b>					<b>(790,733)</b>	<b>(72,866)</b>	<b>(863,599)</b>
<b>Net position, beginning</b>					<b>3,667,799</b>	<b>363,414</b>	<b>4,031,213</b>
Prior period adjustment					(13,392)	-	(13,392)
<b>Net position, ending</b>					<b>\$ 2,863,674</b>	<b>\$ 290,548</b>	<b>\$ 3,154,222</b>

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

**CITY OF LUDLOW, KENTUCKY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**June 30, 2014**

	General Fund	Special Revenue Funds	Total Governmental Funds 2014	Memo Only 2013
<b>ASSETS</b>				
Cash and cash equivalents	\$ (17,442)	\$ 43,029	\$ 25,587	\$ 237,038
Accounts receivable	246,304	29,160	275,464	10,089
Taxes receivable	-	-	-	3,639
Insurance tax receivable	-	-	-	131,855
Grants receivable	-	-	-	-
Due from other funds	1,208	-	1,208	270,967
<b>TOTAL ASSETS</b>	<b>\$ 230,070</b>	<b>\$ 72,189</b>	<b>\$ 302,259</b>	<b>\$ 653,588</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ -	\$ -	\$ -	\$ 30
Accrued payroll and payroll taxes	6,809	-	6,809	6,432
Due to other funds	-	1,208	1,208	270,967
<b>TOTAL LIABILITIES</b>	<b>6,809</b>	<b>1,208</b>	<b>8,017</b>	<b>277,429</b>
<b>FUND BALANCES</b>				
Reported in:				
General fund - unassigned	223,261	-	223,261	118,922
Community development block grant fund - restricted	-	-	-	50
Municipal road aid fund - restricted	-	33,631	33,631	277,461
Neighborhood stabilization program fund - restricted	-	(1,161)	(1,161)	(120)
Fire and EMS fund - committed	-	30,172	30,172	(64,058)
Acquisition Fund	-	8,339	8,339	43,904
Rehabilitation fund - committed	-	-	-	-
<b>TOTAL FUND BALANCES</b>	<b>223,261</b>	<b>70,981</b>	<b>294,242</b>	<b>376,159</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 230,070</b>	<b>\$ 72,189</b>	<b>\$ 302,259</b>	<b>\$ 653,588</b>
Total governmental fund balances			\$ 294,242	
Amounts reported for governmental activities in the statement of net position are different because:				
Capital assets of \$30,700,163, net of accumulated depreciation of (\$26,246,960), used in governmental activities are not financial resources and, therefore, are not reported in the funds.			4,453,203	
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.				
Capital leases			(282,825)	
Compensated absences			(50,787)	
Notes payable			(1,550,159)	
Net position of governmental activities			<u>\$ 2,863,674</u>	

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, 2014

	<u>Governmental Fund Types</u>		<u>Totals</u>	
	<u>General</u>	<u>Special Revenue</u>	<u>2014</u>	<u>Memo Only 2013</u>
<b>REVENUES</b>				
General fund revenue	\$ 2,295,339	\$ -	\$ 2,295,339	\$ 2,179,928
Capital Improvement	-	-	-	112,534
NSP revenue	-	32,613	32,613	138,103
Municipal road aid fund revenue	-	111,695	111,695	115,380
Fire and EMS revenue	-	716,165	716,165	497,524
CDBG revenue	-	-	-	5,000
<b>TOTAL REVENUES</b>	<u>2,295,339</u>	<u>860,473</u>	<u>3,155,812</u>	<u>3,048,469</u>
<b>EXPENDITURES</b>				
Current				
Administrative expenditures	902,492	-	902,492	1,042,775
Police department expenditures	1,000,371	-	1,000,371	905,645
Public works expenditures	220,505	-	220,505	185,909
Park department expenditures	33,072	-	33,072	17,295
Main Street / Renaissance expenditures	100,748	-	100,748	42,597
NSP expenditures	-	9,012	9,012	5,000
Municipal aid expenditures	-	92,774	92,774	138,411
Fire and EMS expenditures	-	795,684	795,684	542,488
CDBG Grant	-	-	-	5,000
Acquisition expenditures	-	83,525	83,525	96
Capital outlay	62,265	630,309	692,574	535,306
Debt service	307,679	712,627	1,020,306	190,677
<b>TOTAL EXPENDITURES</b>	<u>2,627,132</u>	<u>2,323,931</u>	<u>4,951,063</u>	<u>3,611,199</u>
<b>EXCESS (DEFICIT) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(331,793)</u>	<u>(1,463,458)</u>	<u>(1,795,251)</u>	<u>(562,730)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	294,301	173,749	468,050	71,798
Transfers out	(173,749)	(294,301)	(468,050)	(77,369)
Loan proceeds	308,080	1,397,754	1,705,834	563,259
Proceeds from disposal of property	7,500	-	7,500	12,010
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>436,132</u>	<u>1,277,202</u>	<u>1,713,334</u>	<u>569,698</u>
<b>EXCESS (DEFICIT) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES</b>	<u>104,339</u>	<u>(186,256)</u>	<u>(81,917)</u>	<u>6,968</u>
<b>FUND BALANCES BEGINNING OF YEAR</b>	<u>118,922</u>	<u>257,237</u>	<u>376,159</u>	<u>369,191</u>
<b>FUND BALANCES END OF YEAR</b>	<u>\$ 223,261</u>	<u>\$ 70,981</u>	<u>\$ 294,242</u>	<u>\$ 376,159</u>

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

<p><b>CITY OF LUDLOW, KENTUCKY</b>  <b>RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND</b>  <b>CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE</b>  <b>STATEMENT OF ACTIVITIES</b>  <b>For the Year Ended June 30, 2014</b></p>
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<b>Net change in fund balances - total governmental funds</b>	\$ (81,917)
---	-------------

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	692,574
Depreciation expense	(255,063)
Loss on disposal of assets	(423,911)

The proceeds of loans and leases increase revenue in the governmental funds, but the proceeds increase long-term liabilities in the statement of net position.	(1,705,834)
--	-------------

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 position.	977,408
--	---------

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	6,010

<b>Change in net position of governmental activities</b>	<u><u>\$ (790,733)</u></u>
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The accompanying notes are an integral part of these financial statements.



<b>CITY OF LUDLOW, KENTUCKY</b> <b>STATEMENT OF NET POSITION - REVOLVING LOAN FUND</b> <b>June 30, 2014</b>
---

**ASSETS**

Current Assets	
Cash and cash equivalents	\$ 59,391
Total Current Assets	<u>59,391</u>
Noncurrent Assets	
Equipment - Riverside Marketplace	462,315
Less accumulated depreciation	<u>(231,158)</u>
Total Noncurrent Assets	<u>231,157</u>

<b>TOTAL ASSETS</b>	<b>\$ 290,548</b>
---------------------	-------------------

**NET POSITION**

Invested in capital assets, net of related debt	\$ 231,157
Restricted	<u>59,391</u>

<b>TOTAL NET POSITION</b>	<b>\$ 290,548</b>
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The accompanying notes are an integral part of the financial statements.

<b>CITY OF LUDLOW, KENTUCKY</b> <b>STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION -</b> <b>REVOLVING LOAN FUND</b> <b>For the Year Ended June 30, 2014</b>
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**OPERATING REVENUES**

Lease principal income	\$	16,765
Lease interest income		3,352
Sales tax collected		579
		<hr/>

**TOTAL OPERATING REVENUES**

---

20,696

**OPERATING EXPENSES**

Administrative Fees		475
Depreciation expense		92,463
Sales tax remitted		624
		<hr/>

**TOTAL OPERATING EXPENSES**

---

93,562

**OPERATING LOSS**

(72,866)

**TRANSFERS IN, NET**

---

-

**CHANGE IN NET POSITION**

(72,866)

**NET POSITION, JULY 1**

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363,414

**NET POSITION, JUNE 30**

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\$ 290,548

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

<b>CITY OF LUDLOW, KENTUCKY</b> <b>STATEMENT OF CASH FLOWS - REVOLVING LOAN FUND</b> <b>For the Year Ended June 30, 2014</b>
--

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Received from customers	\$ 20,696
Paid to suppliers for goods and services	(1,099)
	<hr/>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	19,597
	<hr/>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Transfers in	-
	<hr/>
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	-
	<hr/>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition of fixed assets	-
	<hr/>
<b>NET CASH PROVIDED BY CAPITAL AND FINANCING ACTIVITIES</b>	-
	<hr/>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	19,597
<b>CASH AND CASH EQUIVALENTS-BEGINNING OF YEAR</b>	39,794
	<hr/>
<b>CASH AND CASH EQUIVALENTS-END OF YEAR</b>	<u>\$ 59,391</u>
	<hr/>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating loss	\$ (72,866)
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation	92,463
	<hr/>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 19,597</u>

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

<b>CITY OF LUDLOW, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2014</b>
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## **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 position 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.

<b>CITY OF LUDLOW, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2014</b>
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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.

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.

<b>CITY OF LUDLOW, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2014</b>
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### *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, Acquisition, 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. Banker's 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, 2014, 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.

### 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 position. If applicable, capital assets used by the proprietary fund are reported in the business type activities column of the government-wide statement of net position.

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.

<b>CITY OF LUDLOW, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2014</b>
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Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective statement of net position. 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, 2014, as reported in the government-wide financial statements, is \$50,787.

### 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, 2014 was \$1,832,984 of which \$111,539 is due within the next year.

### Fund Equity

Net position is the difference between assets and liabilities. Net position 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.

<p><b>CITY OF LUDLOW, KENTUCKY</b>  <b>NOTES TO FINANCIAL STATEMENTS</b>  <b>June 30, 2014</b></p>
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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.

**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, 2014:

<u>Budget Line</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Public works	\$ 993,504	\$ 1,000,466	\$ (6,962)
Municipal Aid Road Fund	\$ 65,274	\$ 92,774	\$ (27,500)

Excess of expenditures over budgeted appropriations in Municipal Aid Road Fund exists due to reclassification of a draw from the line of credit.



<b>CITY OF LUDLOW, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2014</b>
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**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, 2014, the City had cash and cash equivalents of \$84,978. Cash balances are covered by FDIC insurance.

**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, 2014:

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
Land (not depreciated)	\$ 1,066,000	\$ -	\$ -	\$ 1,066,000
Construction in progress	44,180	605,667	(649,847)	-
Assets held for sale (not depreciated)	584,815	24,642	(423,912)	185,545
Infrastructure	24,800,981	-	-	24,800,981
Buildings and equipment	2,496,433	649,847	-	3,146,280
Vehicles	1,544,066	62,265	-	1,606,331
Fixed Assets	30,536,475	1,342,421	(1,073,759)	30,805,137
Accumulated Depreciation	(26,096,871)	(255,063)	-	(26,351,934)
Net Fixed Assets	<u>\$ 4,439,604</u>	<u>\$ 1,087,358</u>	<u>\$ (1,073,759)</u>	<u>\$ 4,453,203</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, 2014:

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
Equipment - Riverside Marketplace	\$ 462,315	\$ -	\$ -	\$ 462,315
Accumulated Depreciation	(138,695)	(92,463)	-	(231,158)
Net Fixed Assets	<u>\$ 323,620</u>	<u>\$ (92,463)</u>	<u>\$ -</u>	<u>\$ 231,157</u>

<b>CITY OF LUDLOW, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2014</b>
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**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. Annual lease payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Payment
2015	\$ 20,320	\$ 3,812	\$ 24,132
2016	20,525	3,607	24,132
2017	20,737	3,395	24,132
2018	20,939	3,193	24,132
2019	308,166	2,009	310,175
Total	<u>\$ 390,687</u>	<u>\$ 16,016</u>	<u>\$ 406,703</u>

**NOTE G – LONG-TERM DEBT**

The City's long-term debt consists of the following:

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. The remaining annual debt service requirements are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Payment
2015	\$ 21,462	22,316	43,778
2016	22,245	21,533	43,778
2017	23,158	20,620	43,778
2018	24,013	19,765	43,778
2019	24,933	18,845	43,778
2020-2033	471,223	145,318	616,541
Total	<u>\$ 587,034</u>	<u>\$ 248,397</u>	<u>\$ 835,431</u>

Capital Lease – Lease One Magnolia

The City executed a lease in September 2012 with Lease One Magnolia LLC for the purchase of a public works vehicle capitalized at a cost of \$34,957. This lease is secured by the vehicle, carries an interest rate of 3.597% and requires an annual payment of \$7,649 each December. Final payment will be December 2016.

<b>CITY OF LUDLOW, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2014</b>
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Annual lease payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Payment
2015	\$ 6,793	\$ 856	\$ 7,649
2016	7,075	574	7,649
2017	7,369	280	7,649
Total	<u>\$ 21,237</u>	<u>\$ 1,710</u>	<u>\$ 22,947</u>

Capital Lease – Lease One Magnolia

The City executed a lease in February 2013 with Lease One Magnolia LLC for the purchase of an ambulance capitalized at a cost of \$146,051. This lease is secured by the vehicle, carries an interest rate of 4.764% and requires an annual payment of \$32,884 each December. Final payment will be December 2017. Annual lease payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Payment
2015	\$ 27,847	\$ 5,037	\$ 32,884
2016	29,055	3,829	32,884
2017	30,315	2,569	32,884
2018	31,629	1,257	32,886
Total	<u>\$ 118,846</u>	<u>\$ 12,692</u>	<u>\$ 131,538</u>

Capital Lease – Lease One Magnolia

The City executed a lease in April 2013 with Lease One Magnolia LLC for the purchase of public works vehicle capitalized at a cost of \$33,949. This lease is secured by the vehicle, carries an interest rate of 4.407% and requires an annual payment of \$7,578 each December. Final payment will be December 2017. Annual lease payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Payment
2015	\$ 6,433	\$ 1,145	\$ 7,578
2016	6,707	871	7,578
2017	6,994	584	7,578
2018	7,293	283	7,576
Total	<u>\$ 27,427</u>	<u>\$ 2,883</u>	<u>\$ 30,310</u>

Capital Lease – Lease One Magnolia

The City executed a lease in July 2013 with Lease One Magnolia LLC for the purchase of a public works vehicle capitalized at a cost of \$74,697. This lease is secured by the vehicle, carries an interest rate of 4.061% and requires an annual payment of \$16,532 each December. Final payment will be December 2017.

<b>CITY OF LUDLOW, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2014</b>
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Annual lease payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Payment
2015	\$ 13,003	\$ 3,529	\$ 16,532
2016	14,912	1,620	16,532
2017	15,562	970	16,532
2018	16,240	292	16,532
Total	<u>\$ 59,717</u>	<u>\$ 6,411</u>	<u>\$ 66,128</u>

Bank of Kentucky - Line of Credit

On November 16, 2012, the City executed a lease with the Bank of Kentucky, not to exceed \$900,000, to finance the acquisition, construction, installation and equipping of a new public works building and to refund the acquisition of certain vehicles and equipment. Interest rate on advances was 2.29% per annum and was payable on May 1 and November 1 each year. The city drew an additional \$678,569 during the fiscal year and paid the entire \$888,329 balance on the line of credit plus interest of \$2,827 on June 20, 2014 with monies received from the Kentucky Bond Corporation.

Kentucky Bond Corporation – Lease Agreement

On May 2, 2014, The City entered into a lease agreement with the Kentucky Bond Corporation (KBC) in the amount of \$965,000. Concurrent with this lease agreement, KBC issued Financing Program Revenue Bonds, 2014 Series B which repaid the City's Bank of Kentucky line of credit. The lease agreement with the Kentucky Bond Corporation specifies monthly principal, interest and expense requirement payments in the amount in effect on the first day of each fiscal year as stated in the agreement. The debt service is as follows:

Year	Interest Rates	Principal Amount	Interest Amount	Total Debt Service
2015	2.300%	23,542	35,740	59,282
2016	3.300%	25,000	23,911	48,911
2017	3.300%	25,000	33,178	58,178
2018	4.300%	25,000	32,616	57,616
2019	4.300%	25,000	32,053	57,053
2020-2024	4.300%	142,083	149,222	291,305
2025-2029	4.800%	167,083	124,555	291,638
2030-2034	4.800%	209,167	92,209	301,376
2035-2039	4.800%	261,250	48,227	309,477
2040-2041	4.800%	60,000	3,882	63,882
Totals		<u>\$ 963,125</u>	<u>\$ 575,593</u>	<u>\$ 1,538,718</u>

**CITY OF LUDLOW, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE H – INDEBTEDNESS SUMMARY**

The changes in long-term indebtedness for 2014 are as follows:

	Balance June 30, 2013	Additions	Retirements	Balance June 30, 2014
Farmers Bank & Trust Leases	\$ 4,639	\$ -	\$ (4,639)	\$ -
First Government Lease Company	-	31,178	(6,667)	24,511
First Government Lease Company	-	31,087	-	31,087
KLC Funding Trust Lease	607,703	-	(20,669)	587,034
Lease One Magnolia Lease	27,759	-	(6,522)	21,237
Lease One Magnolia Lease	146,051	-	(27,205)	118,846
Lease One Magnolia Lease	33,949	-	(6,522)	27,427
Lease One Magnolia Lease	74,697	-	(14,980)	59,717
Bank of Kentucky Lease	209,760	678,569	(888,329)	-
2014B Revenue Bonds	-	965,000	(1,875)	963,125
Total Debt	<u>                    </u>	<u>\$ 1,705,834</u>	<u>\$ (977,408)</u>	<u>1,832,984</u>
Less: current portion of long-term debt				(111,539)
Total Long-Term Debt	<u>\$ 1,104,558</u>			<u>\$ 1,721,445</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, 2014, 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

<b>CITY OF LUDLOW, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2014</b>
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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 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, 2014, participating employers contributed an actuarially determined rate set by the Board of 35.70% 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 18.89% of the non-hazardous duty employee's compensation during the year ended June 30, 2014.

For the year ended June 30, 2014, the City contributed \$232,838 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 24% 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.

<b>CITY OF LUDLOW, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2014</b>
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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 2014
HUD Neighborhood Stabilization Program 1 Grant	12/4/09-8/1/13	835,998	32,613
			<u>\$ 32,613</u>

**NOTE O – PRIOR PERIOD ADJUSTMENT**

In the City’s 2013 audited financial statements, the total long-term debt was incorrectly calculated as \$1,091,166 instead of \$1,104,558. This difference overstated the 2013 net position and a \$13,392 prior period adjustment has been recorded on the statement of activities to gross the net position down to the actual amount.

**NOTE P – SUBSEQUENT EVENTS**

The City’s management has evaluated and considered the need to recognize or disclose subsequent events through June 17, 2015, 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, 2014, 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 AND MUNICIPAL ROAD AID FUND**

**For the Year Ended June 30, 2014**

	Budgeted Amounts			General	Fire/EMS	Municipal Road Aid	Variance with Final Budget Favorable (Unfavorable)
	Original	Revisions	Final				
<b>Budgetary fund balance, July 1, 2013</b>	\$ 118,922	\$ -	\$ 118,922	\$ 118,922	\$ (64,058)	\$ 277,461	\$ 213,403
<b>Resources (inflows)</b>							
General government revenue	2,159,836	10,109	2,169,945	2,295,339	-	-	125,394
Municipal road aid	91,500	21,122	112,622	-	-	111,695	(927)
Fire property assessment tax fund	352,000	(11,793)	340,207	-	340,207	-	-
Other fire revenue	334,925	10,737	345,662	-	375,958	-	30,296
Capital improvements fund	315,000	(307,500)	7,500	7,500	-	-	-
Proceeds from loans	-	-	-	308,080	-	27,500	335,580
Transfers in	-	-	-	294,301	173,749	-	468,050
<b>Amounts available for appropriation</b>	<b>3,372,183</b>	<b>(277,325)</b>	<b>3,094,858</b>	<b>3,024,142</b>	<b>825,856</b>	<b>416,656</b>	<b>1,171,796</b>
<b>Charges to appropriations (outflows)</b>							
Legislative and administrative	950,728	(255)	950,473	935,564	-	-	14,909
Police	955,763	37,741	993,504	1,000,371	-	-	(6,867)
Public works	203,613	31,809	235,422	220,505	-	-	14,917
Capital improvements fund	315,000	(214,252)	100,748	100,748	-	-	-
Municipal road aid	83,500	(18,226)	65,274	-	-	92,774	(27,500)
Fire/EMS fund	739,700	36,833	776,533	-	747,572	-	28,961
Capital outlay	-	-	-	62,265	-	-	(62,265)
Debt Service	-	-	-	307,679	48,112	-	(355,791)
Transfers out	-	-	-	173,749	-	290,251	(464,000)
<b>Total charges to appropriations</b>	<b>3,248,304</b>	<b>(126,350)</b>	<b>3,121,954</b>	<b>2,800,881</b>	<b>795,684</b>	<b>383,025</b>	<b>(857,636)</b>
<b>Budgetary fund balance, June 30, 2014</b>	<b>\$ 123,879</b>	<b>\$ (150,975)</b>	<b>\$ (27,096)</b>	<b>\$ 223,261</b>	<b>\$ 30,172</b>	<b>\$ 33,631</b>	<b>\$ 314,160</b>

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, 2014**

	Rehabilitation Fund	Neighborhood Stabilization Program	Municipal Road Aid Fund	Fire and EMS	Community Development Block Grant	Acquisition Fund	Totals Memo Only	
							2014	2013
<b>REVENUES</b>								
NSP revenue	\$ -	\$ 32,613	\$ -	\$ -	\$ -	\$ -	\$ 32,613	\$ 138,103
Municipal road aid revenue	-	-	111,695	-	-	-	111,695	115,380
Fire and EMS revenue	-	-	-	716,165	-	-	716,165	497,524
CDBG revenue	-	-	-	-	-	-	-	5,000
<b>TOTAL REVENUES</b>	<b>-</b>	<b>32,613</b>	<b>111,695</b>	<b>716,165</b>	<b>-</b>	<b>-</b>	<b>860,473</b>	<b>756,007</b>
<b>EXPENDITURES</b>								
Current								
NSP expenditures	-	9,012	-	-	-	-	9,012	5,000
Municipal road aid expenditures	-	-	92,774	-	-	-	92,774	138,411
Fire and EMS expenditures	-	-	-	795,684	-	-	795,684	542,488
CDGB Grant	-	-	-	-	-	-	-	5,000
Acquisition expenditures	-	-	-	-	-	83,525	83,525	96
Capital outlay expenditures	-	24,642	-	-	-	605,667	630,309	393,027
Debt service expenditures	-	-	-	-	-	712,627	712,627	151,217
<b>TOTAL EXPENDITURES</b>	<b>-</b>	<b>33,654</b>	<b>92,774</b>	<b>795,684</b>	<b>-</b>	<b>1,401,819</b>	<b>2,323,931</b>	<b>1,235,239</b>
<b>EXCESS/(DEFICIT) OF REVENUES OVER/(UNDER)EXPENDITURES BEFORE OTHER SOURCES</b>	<b>-</b>	<b>(1,041)</b>	<b>18,921</b>	<b>(79,519)</b>	<b>-</b>	<b>(1,401,819)</b>	<b>(1,463,458)</b>	<b>(479,232)</b>
<b>OTHER FINANCING SOURCES (USES)</b>								
Transfers in	-	-	-	173,749	-	-	173,749	71,798
Transfers out	-	-	(290,251)	-	(50)	(4,000)	(294,301)	(5,571)
Proceeds from sale of assets	-	-	-	-	-	-	-	7,111
Proceeds from loans	-	-	27,500	-	-	1,370,254	1,397,754	424,717
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>-</b>	<b>(262,751)</b>	<b>173,749</b>	<b>(50)</b>	<b>1,366,254</b>	<b>1,277,202</b>	<b>498,055</b>
<b>EXCESS/(DEFICIT) OF REVENUES OVER/(UNDER)EXPENDITURES</b>	<b>-</b>	<b>(1,041)</b>	<b>(243,830)</b>	<b>94,230</b>	<b>(50)</b>	<b>(35,565)</b>	<b>(186,256)</b>	<b>18,823</b>
<b>FUND BALANCES BEGINNING OF YEAR</b>	<b>-</b>	<b>(120)</b>	<b>277,461</b>	<b>(64,058)</b>	<b>50</b>	<b>43,904</b>	<b>257,237</b>	<b>238,414</b>
<b>FUND BALANCES END OF YEAR</b>	<b>\$ -</b>	<b>\$ (1,161)</b>	<b>\$ 33,631</b>	<b>\$ 30,172</b>	<b>\$ -</b>	<b>\$ 8,339</b>	<b>\$ 70,981</b>	<b>\$ 257,237</b>

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the City of Ludlow, Kentucky as of June 30, 2014 and the related notes to the financial statements which collectively comprise the City of Ludlow, Kentucky's financial statements, and have issued our report thereon dated June 17, 2015.

***Internal Control over Financial Reporting***

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

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

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



### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the City of 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 audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

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

*Van Gorder, Walker & Co., Inc.*

Van Gorder, Walker, & Co., Inc.  
Erlanger, Kentucky  
June 17, 2015