

**CITY OF LUDLOW, KENTUCKY**

**FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2016**

<p><b>CITY OF LUDLOW, KENTUCKY</b></p> <p><b>FINANCIAL STATEMENTS</b></p> <p><b>For the Year Ended June 30, 2016</b></p>
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**CITY OF LUDLOW, KENTUCKY**

**CITY OFFICIALS**

**For the Year Ended June 30, 2016**

**Council Members**

Kenneth Wynn, Mayor

Tom Amann

Dan Ashcraft

Josh Boone

Michelle Cartwright

Bill Mullins

William Whiteley

**City Management**

Elishia Chamberlain, City Administrator

Laurie Sparks, City Clerk

Alice Margolen, Treasurer

Jeff Otis, Attorney



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

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

## **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, 2016, 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.



**-Opinions**

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, 2016 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 – 9, the budgetary comparison schedule on page 36 and the pension disclosure on pages 37-38 to 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.

***-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 pages 39-40 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 March 31, 2017 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  
March 31, 2017

## **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 \$496,293, an increase of \$229,220 from 2015.
- 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 Municipal Aid, and Fire and EMS, 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 \$869,409 at June 30, 2016. A comparison of net position in fiscal year 2016 and 2015 follows:

	<b>2016</b>	<b>2015</b>
Current assets	\$ 648,356	\$ 433,207
Capital assets, net	3,893,415	4,169,255
Deferred outflows	<u>437,801</u>	<u>235,961</u>
Total assets and deferred outflows	<u>4,979,572</u>	<u>4,838,423</u>
Total liabilities	3,978,563	3,635,097
Deferred inflows	<u>131,600</u>	<u>188,522</u>
Total liabilities and deferred inflows	<u>4,110,163</u>	<u>3,823,619</u>
Total net position	<u><u>\$ 869,409</u></u>	<u><u>\$ 1,014,804</u></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, 2016 and 2015.

	<u>2016</u>	<u>2015</u>
<b>Revenues</b>		
Charges for services	\$ 416,622	\$ 488,677
Operating grants and contributions	707,894	1,001,389
Capital grants and contributions	32,500	3,493
General Revenues		
Taxes	1,419,743	1,229,283
License and permit fees	563,239	637,938
Code Enforcement Board	111,712	60,632
Miscellaneous	14,474	34,947
Gain (loss) on disposal of assets	767	(185,544)
Unrestricted investment earnings	72	107
Total revenues:	<u>3,267,023</u>	<u>3,270,922</u>
<b>Expenses</b>		
Legislative and administrative	1,036,516	948,232
Fire and EMS expenses	626,187	590,713
Streets	156,979	672,357
Main Street/Renaissance	-	79,236
Neighborhood Stabilization Program	-	4,167
Park department	9,666	32,418
Public safety	1,186,922	953,238
Public works	246,616	228,339
Rehab	-	3,725
Interest on long-term debt	67,783	57,950
Total expenses:	<u>3,330,669</u>	<u>3,570,375</u>
<b>Change in Net Position</b>	<u>\$ (63,646)</u>	<u>\$ (299,453)</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, 2016 and 2015.

	<u>2016</u>	<u>2015</u>
<b>Revenues</b>		
Charges for services	\$ 97,174	\$ 43,877
General Revenues	3,248	
Sales taxes		972
Total revenues:	<u>100,422</u>	<u>44,849</u>
<b>Expenses</b>		
Revolving loan fund	<u>95,657</u>	<u>94,481</u>
Total expenses:	<u>95,657</u>	<u>94,481</u>
Transfers in	<u>-</u>	<u>-</u>
<b>Change in Net Position</b>	<u>\$ 4,765</u>	<u>\$ (49,632)</u>

### Capital Assets and Debt Administration

#### Capital Assets

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

	<u>2016</u>	<u>2015</u>
Land	\$ 1,066,000	\$ 1,066,000
Assets held for sale	-	-
Buildings/Equipment	3,124,578	3,124,578
Infrastructure	24,800,981	24,800,981
Vehicles	<u>1,451,821</u>	<u>1,419,331</u>
Totals	<u>\$ 30,443,380</u>	<u>\$ 30,410,890</u>

This year's net increase of \$32,490 in capital assets included:

Purchase of 2 police vehicles	\$ 61,990
Disposal of public works pickup and minivan	<u>(29,500)</u>
	<u>\$ 32,490</u>

## Debt

The long term debt for the City at June 30, 2016 and 2015 is as follows:

	<b>Governmental Activities</b>	
	<b>2016</b>	<b>2015</b>
KLC funding trust	\$ 543,327	\$ 565,572
Leases	201,848	221,000
2014B revenue bonds	914,583	939,583
Totals	<u>\$ 1,659,758</u>	<u>\$ 1,726,155</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, 2016**

	<b>Primary Government</b>		
	<b>Governmental</b>	<b>Business-type</b>	<b>Total</b>
<b>Assets</b>	<b>Activities</b>	<b>Activities</b>	<b>Total</b>
Cash and cash equivalents	\$ 296,209	\$ 200,084	\$ 496,293
Accounts receivable	152,063	-	152,063
Capital assets			
Land (not depreciated)	1,066,000	-	1,066,000
Property, plant and equipment, net of accumulated depreciation	2,781,184	46,231	2,827,415
<b>Total Assets</b>	<b>4,295,456</b>	<b>246,315</b>	<b>4,541,771</b>
<b>Deferred Outflows of Resources</b>			
Pension contribution for fiscal year 2015	437,801	-	437,801
<b>Total Deferred Outflows of Resources</b>	<b>437,801</b>	<b>-</b>	<b>437,801</b>
<b>Total Assets and Deferred Outflows of Resources</b>	<b>4,733,257</b>	<b>246,315</b>	<b>4,979,572</b>
<b>Liabilities</b>			
Accounts payable	71,263	634	71,897
Accrued payroll and payroll taxes	4,825	-	4,825
Long-term liabilities			
Compensated absences	72,869	-	72,869
Due within one year	133,260	-	133,260
Due in more than one year	1,526,498	-	1,526,498
Net pension liability	2,169,214	-	2,169,214
<b>Total Liabilities</b>	<b>3,977,929</b>	<b>634</b>	<b>3,978,563</b>
<b>Deferred Inflows of Resources</b>			
Deferred inflow of resources related to pensions	131,600	-	131,600
<b>Total Liabilities and Deferred Inflows of Resources</b>	<b>4,109,529</b>	<b>634</b>	<b>4,110,163</b>
<b>Net Position</b>			
Invested in capital assets	2,187,426	46,231	2,233,657
Restricted	-	199,450	199,450
Unrestricted	(1,563,698)	-	(1,563,698)
<b>Total Net Position</b>	<b>\$ 623,728</b>	<b>\$ 245,681</b>	<b>\$ 869,409</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, 2016**

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and 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	\$1,046,183	\$ 373,634	\$ -	\$ -	\$ (672,549)	\$ -	\$ (672,549)
Public safety	1,186,922	42,988	78,563	-	(1,065,371)	-	(1,065,371)
Public works	246,616	-	20,000	-	(226,616)	-	(226,616)
Streets	156,979	-	134,732	-	(22,247)	-	(22,247)
Fire and EMS	626,187	-	474,599	32,500	(119,088)	-	(119,088)
Interest on long-term debt	67,783	-	-	-	(67,783)	-	(67,783)
<b>Total governmental activities</b>	<u>3,330,670</u>	<u>416,622</u>	<u>707,894</u>	<u>32,500</u>	<u>(2,173,654)</u>	<u>-</u>	<u>(2,173,654)</u>
<b>Business-type activities</b>							
Revolving loan fund	95,657	97,174	-	-	-	1,517	1,517
<b>Total Primary Government</b>	<u>\$3,426,327</u>	<u>\$ 513,796</u>	<u>\$ 707,894</u>	<u>\$ 32,500</u>	<u>(2,173,654)</u>	<u>1,517</u>	<u>(2,172,137)</u>
<b>General revenues</b>							
Taxes							
Property taxes, levied for general purposes					732,349	-	732,349
Insurance premium taxes					547,952	-	547,952
Other taxes					139,442	-	139,442
Sales tax received					-	3,248	3,248
Licenses and permit fees							
Payroll/gross receipts license fees					338,238	-	338,238
Other licenses, fees & permits					225,001	-	225,001
Code enforcement/blight abatement					111,712	-	111,712
Gain on disposal of assets					767	-	767
Investment earnings					72	-	72
Miscellaneous					14,474	-	14,474
<b>Total general revenues</b>					<u>2,110,007</u>	<u>3,248</u>	<u>2,113,255</u>
<b>Change in net position</b>					(63,647)	4,765	(58,882)
<b>Net position, beginning</b>					773,888	240,916	1,014,804
Prior period adjustment					(86,513)	-	(86,513)
<b>Net position, ending</b>					<u>\$ 623,728</u>	<u>\$ 245,681</u>	<u>\$ 869,409</u>

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

**CITY OF LUDLOW, KENTUCKY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**June 30, 2016**

	General Fund	Municipal Aid Road Fund	Special Revenue Funds	Total Governmental Funds 2016	Memo Only 2015
<b>Assets</b>					
Cash and cash equivalents	\$ 215,786	\$ 62,771	\$ 17,652	\$ 296,209	\$ 164,411
Accounts receivable	152,063	-	-	152,063	17,575
Taxes receivable			-	-	14,338
Insurance tax receivable			-	-	134,221
Due from other funds	277,488		-	277,488	213,963
<b>Total Assets</b>	<u>\$ 645,337</u>	<u>\$ 62,771</u>	<u>\$ 17,652</u>	<u>\$ 725,760</u>	<u>\$ 544,508</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 54,072	\$ -	\$ 17,191	\$ 71,263	\$ 15,768
Accrued payroll and payroll taxes	4,825	-	-	4,825	3,542
Due to other funds		130,241	147,247	277,488	213,963
<b>Total Liabilities</b>	<u>58,897</u>	<u>130,241</u>	<u>164,438</u>	<u>353,576</u>	<u>233,273</u>
<b>Fund Balances</b>					
Reported in:					
General fund - unassigned	586,440	-	-	586,440	469,157
Municipal road aid fund - restricted	-	(67,470)	-	(67,470)	(101,659)
Neighborhood stabilization program fund - resti	-	-	-	-	4,614
Fire and EMS fund - committed	-	-	(146,786)	(146,786)	(60,877)
Acquisition Fund	-	-	-	-	-
<b>Total Fund Balances</b>	<u>586,440</u>	<u>(67,470)</u>	<u>(146,786)</u>	<u>372,184</u>	<u>311,235</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 645,337</u>	<u>\$ 62,771</u>	<u>\$ 17,652</u>	<u>\$ 725,760</u>	<u>\$ 544,508</u>
Total governmental fund balances				\$ 372,184	
Amounts reported for governmental activities in the statement of net position are different because:					
Capital assets of \$30,443,380, net of accumulated depreciation of (\$26,596,196), used in governmental activities are not financial resources and, therefore, are not reported in the funds.				3,847,184	
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore are not reportable in the funds:					
Deferred outflow of resources				437,801	
Deferred outflow of resources				(131,600)	
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.					
Capital leases				(201,848)	
Compensated absences				(72,869)	
Notes payable				(1,457,910)	
Net pension liability				(2,169,214)	
Net position of governmental activities				<u>\$ 623,728</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, 2016**

	Governmental Fund Types			Totals	
	General	Municipal Aid Road Fund	Special Revenue	2016	Memo Only 2015
<b>Revenues</b>					
General fund revenue	\$ 2,625,192	\$ -	\$ -	\$ 2,625,192	\$ 2,462,093
NSP revenue	-	-	-	-	3,493
Municipal road aid fund revenue	-	134,732	-	134,732	415,631
Fire and EMS revenue	-	-	507,099	507,099	464,677
<b>Total Revenues</b>	<u>2,625,192</u>	<u>134,732</u>	<u>507,099</u>	<u>3,267,023</u>	<u>3,345,894</u>
<b>Expenditures</b>					
Current					
Administrative expenditures	992,424	-	-	992,424	915,915
Police department expenditures	1,152,153	-	-	1,152,153	922,189
Public works expenditures	210,221	-	-	210,221	193,651
Park department expenditures	9,666	-	-	9,666	25,778
Main Street / Renaissance	-	-	-	-	79,236
NSP expenditures	-	-	-	-	4,167
Municipal aid expenditures	-	100,543	-	100,543	615,921
Fire and EMS expenditures	-	-	544,897	544,897	507,614
Acquisition expenditures	-	-	-	-	3,725
Capital outlay	61,990	-	-	61,990	6,500
Debt service					
Principal	234,768	-	43,619	278,387	
Interest	63,291	-	4,492	67,783	464,846
<b>Total Expenditures</b>	<u>2,724,513</u>	<u>100,543</u>	<u>593,008</u>	<u>3,418,064</u>	<u>3,739,542</u>
<b>Excess (Deficit) of Revenues Over (Under) Expenditures</b>	<u>(99,321)</u>	<u>34,189</u>	<u>(85,909)</u>	<u>(151,041)</u>	<u>(393,648)</u>
<b>Other Financing Sources (Uses)</b>					
Transfers in	4,614	-	-	4,614	66,835
Transfers out	-	-	(4,614)	(4,614)	(66,835)
Loan proceeds	211,990	-	-	211,990	410,641
Proceeds from disposal of property	-	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<u>216,604</u>	<u>-</u>	<u>(4,614)</u>	<u>211,990</u>	<u>410,641</u>
<b>Excess (Deficit) of Revenues and Other Sources Over (Under) Expenditures</b>	<u>117,283</u>	<u>34,189</u>	<u>(90,523)</u>	<u>60,949</u>	<u>16,993</u>
<b>Fund Balance, Beginning of Year</b>	<u>469,157</u>	<u>(101,659)</u>	<u>(56,263)</u>	<u>311,235</u>	<u>294,242</u>
<b>Fund Balance, End of Year</b>	<u>\$ 586,440</u>	<u>\$ (67,470)</u>	<u>\$ (146,786)</u>	<u>\$ 372,184</u>	<u>\$ 311,235</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, 2016</b></p>
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**Net change in fund balances - total governmental funds** \$ 60,949

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 capitalized	61,990
Depreciation expense	(245,367)

Governmental funds report pension contributions as expenditures, however, in the statement of activities, the cost of the pension benefits earned, net of employer contributions, is reported as pension expense:

City pension contributions	181,894
Costs of benefits earned	(173,581)

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.	278,387
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The proceeds of loans and leases increase revenue in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position	(211,990)
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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	(15,929)
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<b>Change in net position of governmental activities</b>	<b>\$ (63,647)</b>
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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, 2016</b>
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**Assets**

Current Assets

Cash and cash equivalents	\$ 200,084
<b>Total Current Assets</b>	<u>200,084</u>

Noncurrent Assets

Equipment - Riverside Marketplace	462,315
Less accumulated depreciation	<u>(416,084)</u>
<b>Total Noncurrent Assets</b>	<u>46,231</u>

**Total Assets**

246,315

**Liabilities**

Accounts payable	<u>634</u>
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**Net Position**

Invested in capital assets, net of related debt	46,231
Restricted	<u>199,450</u>

**Total Net Position**

\$ 245,681

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

<p><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, 2016</b></p>
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**Operating Revenues**

Lease principal income	\$ 94,035
Lease interest income	3,139
Sales tax collected	3,248
	<hr/>

<b>Total Operating Revenues</b>	<hr/> <b>100,422</b>
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**Operating Expenses**

Administrative Fees	-
Depreciation expense	92,463
Sales tax remitted	3,194
	<hr/>

<b>Total Operating Expenses</b>	<hr/> <b>95,657</b>
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<b>Operating Income</b>	<b>4,765</b>
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<b>Transfer In, Net</b>	<hr/> <b>-</b>
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<b>Change in Net Position</b>	<b>4,765</b>
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<b>Net Position, July 1</b>	<hr/> <b>240,916</b>
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<b>Net Position, June 30</b>	<hr/> <b>\$ 245,681</b> <hr/>
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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, 2016</b>
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<b>Cash Flows from Operating Activities</b>	
Received from customers	\$ 100,422
Paid to suppliers for goods and services	<u>(3,000)</u>
<b>Net Cash Provided by Operating Activities</b>	<u>97,422</u>
<b>Cash Flows from Non-Capital Financing Activities</b>	
Transfers in	<u>-</u>
<b>Net Cash Provided by Non-Capital Financing Activities</b>	<u>-</u>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Acquisition of fixed assets	<u>-</u>
<b>Net Cash Provided by Capital and Financing Activities</b>	<u>-</u>
<b>Increase in Cash and Cash Equivalents</b>	97,422
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>102,662</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><u>\$ 200,084</u></u>
<b>Reconciliation of Operating Income to Net Cash     Provided by Operating Activities</b>	
Operating income	\$ 4,765
Adjustments to reconcile net income to net cash provided by operating activities	
Increase in accounts payable	194
Depreciation	<u>92,463</u>
<b>Net Cash Provided by Operating Activities</b>	<u><u>\$ 97,422</u></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, 2016</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, 2016</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.

<b>CITY OF LUDLOW, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2016</b>
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### 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 Municipal Road Aid, 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, 2016, 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

<p><b>CITY OF LUDLOW, KENTUCKY</b>  <b>NOTES TO FINANCIAL STATEMENTS</b>  <b>June 30, 2016</b></p>
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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. 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, 2016, as reported in the government-wide financial statements, is \$72,869.

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, 2016 was \$1,659,758 of which \$133,260 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,

<b>CITY OF LUDLOW, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2016</b>
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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.

### **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.

<b>CITY OF LUDLOW, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2016</b>
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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, 2016:

<u>Budget Line</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Municipal Aid Road Fund	\$ -	\$ 100,543	\$ (100,543)
Police	\$ 1,090,753	\$ 1,243,151	\$ (152,398)
Fire/EMS Fund	\$ 554,000	\$ 593,008	\$ (39,008)

### 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, 2016, the City had cash and cash equivalents of \$496,293. 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, 2016:

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016
Land (not depreciated)	\$ 1,066,000	\$ -	\$ -	\$ 1,066,000
Construction in progress	-	-	-	-
Infrastructure	24,800,981	-	-	24,800,981
Buildings and equipment	3,124,578	-	-	3,124,578
Vehicles	1,419,331	61,990	(29,500)	1,451,821
Fixed Assets	30,410,890	61,990	(29,500)	30,443,380
Accumulated Depreciation	(26,380,329)	(245,367)	29,500	(26,596,196)
Net Fixed Assets	<u>\$ 4,030,561</u>	<u>\$ (183,377)</u>	<u>\$ -</u>	<u>\$ 3,847,184</u>

<p><b>CITY OF LUDLOW, KENTUCKY</b>  <b>NOTES TO FINANCIAL STATEMENTS</b>  <b>June 30, 2016</b></p>
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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, 2016:

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016
Equipment - Riverside Marketplace	\$ 462,315	\$ -	\$ -	\$ 462,315
Accumulated Depreciation	(323,621)	(92,463)	-	(416,084)
Net Fixed Assets	<u>\$ 138,694</u>	<u>\$ (92,463)</u>	<u>\$ -</u>	<u>\$ 46,231</u>

**F – OPERATING LEASE**

On April 8, 2011, the City entered into an operating lease agreement with the owner 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. Riverside Marketplace made additional principal payments in fiscal year ending June 30, 2016. Future annual lease payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Payment
2017	\$ 20,969	\$ 3,166	\$ 24,135
2018	21,179	2,955	24,134
2019	208,323	2,077	210,400
Total	<u>\$ 250,471</u>	<u>\$ 8,198</u>	<u>\$ 258,669</u>

<b>CITY OF LUDLOW, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2016</b>
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**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:

Ending June 30,	Principal	Interest	Payment
2017	\$ 23,158	\$ 20,620	\$ 43,778
2018	24,013	19,765	43,778
2019	24,933	18,845	43,778
2020	25,855	17,923	43,778
2021	26,895	16,883	43,778
2022-2026	150,561	68,329	218,890
2027-2031	181,603	37,287	218,890
2032-2033	86,309	4,896	91,205
Total	<u>\$ 543,327</u>	<u>\$ 204,548</u>	<u>\$ 747,875</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. Annual lease payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Payment
2017	\$ 7,472	\$ 177	\$ 7,649
Total	<u>\$ 7,472</u>	<u>\$ 177</u>	<u>\$ 7,649</u>

<b>CITY OF LUDLOW, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2016</b>
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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
2017	\$ 30,855	\$ 2,029	\$ 32,884
2018	32,194	690	32,884
Total	<u>\$ 63,049</u>	<u>\$ 2,719</u>	<u>\$ 65,768</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
2017	\$ 7,117	\$ 461	\$ 7,578
2018	7,421	157	7,578
Total	<u>\$ 14,538</u>	<u>\$ 618</u>	<u>\$ 15,156</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.

Annual lease payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Payment
2017	\$ 15,508	\$ 1,024	\$ 16,532
2018	16,183	349	16,532
Total	<u>\$ 31,691</u>	<u>\$ 1,373</u>	<u>\$ 33,064</u>

<b>CITY OF LUDLOW, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2016</b>
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Capital Lease - First Government Lease Company

The City executed a lease in August 7, 2013 with First Government Lease Company for the purchase of a 2013 police interceptor SUV capitalized at a cost of \$31,178. This lease is secured by the vehicle and requires an annual payment of \$7,405 each December. Final payment will be December 2017.

Annual lease payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Payment
2017	\$ 6,358	\$ 1,047	\$ 7,405
2018	6,903	502	7,405
Total	<u>\$ 13,261</u>	<u>\$ 1,549</u>	<u>\$ 14,810</u>

Capital Lease - First Government Lease Company

The City executed a lease on January 28, 2014 with First Government Lease Company for the purchase of a 2014 police vehicle capitalized at a cost of \$31,078. This lease is secured by the vehicle and requires an annual payment of \$6,999 each December. Final payment will be December 2019.

Annual lease payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Payment
2017	\$ 4,812	\$ 2,187	\$ 6,999
2018	5,285	1,714	6,999
2019	5,803	1,196	6,999
2020	6,373	626	6,999
Total	<u>\$ 22,273</u>	<u>\$ 5,723</u>	<u>\$ 27,996</u>

<b>CITY OF LUDLOW, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2016</b>
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Capital Lease – Lease One Magnolia

The City executed a lease on October 27, 2016 with Lease One Magnolia LLC for the purchase of two 2016 police vehicles capitalized at a cost of \$61,990. This lease is secured by the vehicles and requires an annual payment of \$13,424 each December. Final payment will be December 2019.

Annual lease payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Payment
2017	\$ 11,678	\$ 1,744	\$ 13,422
2018	12,141	1,281	13,422
2019	12,622	800	13,422
2020	13,123	299	13,422
Total	<u>\$ 49,564</u>	<u>\$ 4,124</u>	<u>\$ 53,688</u>

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, 2014Series 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	Interest	Total Debt Service
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	4.300%	25,000	31,491	56,491
2021	4.300%	27,083	30,824	57,907
2022-2026	4.300%	152,083	139,969	292,052
2027-2031	4.800%	182,083	112,932	295,015
2032-2036	4.800%	229,167	76,120	305,287
2037-2041	4.800%	224,167	26,759	250,926
Total		<u>\$ 914,583</u>	<u>\$ 515,942</u>	<u>\$ 1,430,525</u>

<b>CITY OF LUDLOW, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2016</b>
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**NOTE H – INDEBTEDNESS SUMMARY**

The changes in long-term indebtedness for 2016 are as follows:

	Balance June 30, 2015	Additions	Retirements	Balance June 30, 2016
First Government Lease Company	\$ 19,117	\$ -	\$ (5,856)	\$ 13,261
First Government Lease Company	26,655	-	(4,382)	22,273
KLC Funding Trust Lease	565,572	-	(22,245)	543,327
Lease One Magnolia Lease	14,692	-	(7,220)	7,472
Lease One Magnolia Lease	92,623	-	(29,574)	63,049
Lease One Magnolia Lease	21,363	-	(6,825)	14,538
Lease One Magnolia Lease	46,550	-	(14,859)	31,691
Lease One Magnolia Lease	-	61,990	(12,426)	49,564
2014B Revenue Bonds	939,583	-	(25,000)	914,583
Total Debt	<u>\$ 1,726,155</u>	<u>\$ 61,990</u>	<u>\$ (128,387)</u>	1,659,758
Less: current portion of long-term debt	(121,722)			(133,260)
Total Long-Term Debt	<u>\$ 1,604,433</u>			<u>\$ 1,526,498</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.

**NOTE J – COUNTY EMPLOYEES' RETIREMENT SYSTEMS**

The City's eligible employees are covered by the County Employees Retirement System.

**General information about the County Employees Retirement System Non-Hazardous ("CERS")**

*Plan description* - Employees are covered by CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

*Benefits provided* - CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five year's service. For retirement purposes, employees are grouped into three tiers, based on hire date:

<p><b>CITY OF LUDLOW, KENTUCKY</b>  <b>NOTES TO FINANCIAL STATEMENTS</b>  <b>June 30, 2016</b></p>
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Tier 1	Participation date	Before September 1, 2008
	Unreduced Retirement	27 years service or 65 years old
	Reduced Retirement	At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation Date	September 1, 2008 - December 31, 2013
	Unreduced Retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87 At least 10 years service and 60 years old
Tier 3	Participation Date	After December 31, 2013
	Unreduced Retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced Retirement	Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of year's service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months or service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate or pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

*Contributions* - Required contributions by the employee are based on the tier:

	<u>Required Contribution</u>
Tier 1	5%
Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

**Contributions**

For non-hazardous duty employees, the City contributed 17.06%, of which 12.42% was for the pension fund and 4.64% was for the health insurance fund, of the non-hazardous duty employee's compensation during the fiscal year ended June 30, 2016. For hazardous duty employees, the City contributed 32.95%, of which 20.26% was for the pension fund and 12.69% was for the health insurance fund, of the hazardous duty employee's compensation during the fiscal year ended June 30, 2016.

The City made all required contributions for the non-hazardous Plan pension obligation for the fiscal year ended June 30, 2016 in the amount of \$54,051, of which \$39,350 was for the pension fund and \$14,701 was for the health insurance fund. The City also made all required contributions for the hazardous Plan pension obligation for the fiscal year ended June 30, 2016 in the amount of \$231,828, of which \$142,544 was for the pension fund and \$89,284 was for the health insurance fund.

<b>CITY OF LUDLOW, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2016</b>
---

**Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions**

At June 30, 2016, the City reported a liability of \$2,169,214 (\$759,995 – non-hazardous and \$1,409,219 – hazardous) as its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2015, the City's non-hazardous employer allocation proportion was 0.019326% of the total CERS non-hazardous duty employees and 0.100286% of the total CERS hazardous duty employees. For the year ended June 30, 2016, the City recognized pension expense of \$173,581.

At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
Differences between expected and actual experience	\$ 36,923	\$ -
Net difference between projected and actual earnings on plan investments	15,663	-
Changes of assumptions	198,417	-
Changes in proportion and differences between City contributions and proportionate share of contributions	-	131,600
City contributions subsequent to the measurement date	186,798	-
Total	<u>\$ 437,801</u>	<u>\$ 131,600</u>

In FY 2016, \$306,201 was recognized as a net deferred outflow of resources resulting from a) actuarial losses, b) difference between projected and actual earnings, c) changes in assumptions, and d) contributions subsequent to the measurement date. There were no net deferred inflows of resources.

The City's contributions subsequent to the measurement date of \$343,131 will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Net Deferral</u>
2017	\$ 25,555
2018	25,555
2019	17,666
2020	50,627
	<u>\$ 119,403</u>

**CITY OF LUDLOW, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**Actuarial Assumptions**

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2015
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	30 years
Asset Valuation Method	5-year smoothed market
Inflation	3.25%
Salary Increase	4.0%, average, including inflation
Investment Rate of Return	7.5%, net of pension plan expense, including inflation

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (1 year set-back for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for CERS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

**Changes of Assumptions**

Since the prior measurement date, the demographic and economic assumptions that affect the measurement of the total pension liability have been updated as follows:

- The assumed investment rate was decreased from 7.75% to 7.5%.
- The assumed rate of inflation was reduced from 3.5% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is RP-2000 Combined mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).

**CITY OF LUDLOW, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of retirement, withdrawal and disability were updated to more accurately reflect experience.

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

Asset Class	CERS Hazardous & Non-Hazardous Target Allocation	Long Term Expected Nominal Return
Combined equity	44%	5.40%
Combined fixed income	19%	1.50%
Real return (diversified inflation strategies)	10%	3.50%
Real estate	5%	4.50%
Absolute return (diversified hedge funds)	10%	4.25%
Private equity	10%	8.50%
Cash	2%	-0.25%
Total	<u>100%</u>	

**Discount Rate**

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.5%. The long-term assumed investment rate of return was applied to all periods of projected of benefit payments to determine the total pension liability.

**Sensitivity of the District’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate**

The following presents the City’s proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

	Discount Rate	City's Proportionate Share of Net Pension Liability
1% decrease	6.5%	\$ 2,774,078
Current discount rate	7.5%	2,169,214
1% increase	8.5%	1,662,211

<b>CITY OF LUDLOW, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2016</b>
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**Plan Fiduciary Net Position**

The Plan issues a publicly available financial report that includes financial statements and required supplementary information, and detailed information about the Plan's fiduciary net position. The report may be obtained in writing from the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky, 40601.

**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 16% 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.

**NOTE N – IMPLEMENTATION OF NEW ACCOUNTING STANDARDS**

**Statement No. 71** – *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*

**Statement No. 72** – *Fair Value Measurement and Application*

**Statement No. 73** – *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*

**Statement No. 76** – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*

**Statement No. 79** – *Certain External Investment Pools and Pool Participants*

**NOTE P – FUTURE ACCOUNTING STANDARDS**

**Statement No. 74** – *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*

**CITY OF LUDLOW, KENTUCKY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**Statement No. 75** – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*

**Statement No. 77** – *Tax Abatement Disclosures*

**Statement No. 78** – *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*

**Statement No. 80** – *Blending Requirements for Certain Component Unites – an Amendment of GASB Statement No. 14*

**Statement No. 81** – *Irrevocable Split-Interest Agreements*

**Statement No. 82** – *Pension Issues – an Amendment of GASB Statements No. 67, 68, and 73*

**NOTE O – PRIOR PERIOD ADJUSTMENT**

The City has recorded a prior period adjustment of (\$86,513) to the beginning net position. This adjustment accounts for the health insurance fund portion of the pension contributions for 2015 which is being recorded in accordance with Government Accounting Standards Board Statement No. 68.

**NOTE P – SUBSEQUENT EVENTS**

The City's management has evaluated and considered the need to recognize or disclose subsequent events through March 31, 2017, 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, 2016, have not been evaluated by the City's management.

**CITY OF LUDLOW, KENTUCKY**

**BUDGETARY COMPARISON SCHEDULE- BUDGET TO ACTUAL- GENERAL FUND, FIRE/EMS FUND, AND MUNICIPAL ROAD AID**

**For the Year Ended June 30, 2016**

	Budgeted Amounts			General	Fire/EMS	Municipal Road Aid	Variance with Final Budget Favorable (Unfavorable)
	Original	Revisions	Final*				
<b>Budgetary fund balance, July 1, 2015</b>	\$ 227,719	\$ (52,884)	\$ 174,835	\$ 469,157	\$ (60,877)	\$ (101,659)	\$ 131,786
<b>Resources (inflows)</b>							
General government revenue	2,767,425	-	2,767,425	2,625,192	-	-	(142,233)
Municipal road aid	105,000	-	105,000	-	-	134,732	29,732
Fire property assessment tax/Misc.	493,255	-	493,255	-	507,099	-	13,844
Capital improvements fund	15,000	-	15,000	-	-	-	(15,000)
Proceeds from loans	-	-	-	211,990	-	-	211,990
Economic Development	57,000	-	57,000	-	-	-	(57,000)
Transfers in	-	-	-	4,614	-	-	4,614
<b>Amounts available for appropriation</b>	<u>3,665,399</u>	<u>(52,884)</u>	<u>3,612,515</u>	<u>3,310,953</u>	<u>446,222</u>	<u>33,073</u>	<u>177,733</u>
<b>Charges to appropriations (outflows)</b>							
Legislative and administrative	1,301,172	-	1,301,172	1,186,202	-	-	114,970
Police	1,090,753	-	1,090,753	1,243,151	-	-	(152,398)
Public works	338,300	-	338,300	285,494	-	-	52,806
Parks and Misc Capital Improvements	26,900	-	26,900	9,666	-	-	17,234
Municipal road aid	-	-	-	-	-	100,543	(100,543)
Fire/EMS fund	554,000	-	554,000	-	593,008	-	(39,008)
Transfers out	-	-	-	-	-	-	-
<b>Total charges to appropriations</b>	<u>3,386,790</u>	<u>-</u>	<u>3,386,790</u>	<u>2,724,513</u>	<u>593,008</u>	<u>100,543</u>	<u>(106,939)</u>
<b>Budgetary fund balance, June 30, 2016</b>	<u>\$ 278,609</u>	<u>\$ (52,884)</u>	<u>\$ 225,725</u>	<u>\$ 586,440</u>	<u>\$ (146,786)</u>	<u>\$ (67,470)</u>	<u>\$ 70,794</u>

\*NOTE: As budgeted, numbers do not foot.

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

<b>CITY OF LUDLOW, KENTUCKY</b> <b>MULTIPLE EMPLOYER, COST SHARING, DEFINED BENEFIT PENSION PLAN DISCLOSURE-NON-HAZARDOUS</b> <b>Last Ten Fiscal Years</b>
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**Schedule of the City's Proportionate Share of the Net Pension Liability  
County Employees' Retirement System (CERS)**

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Proportion of net pension liability	0.17676%	0.019326%								
Proportionate share of the net pension liability (asset)	\$ 759,995	\$ 626,994								
Covered employee payroll in year of measurement	303,828	317,212								
Share of the net pension liability (asset) as a percentage of its covered employee payroll	250.14%	197.66%								
Plan fiduciary net position as a percentage of total pension liability	59.97%	66.80%								

**Schedule of the City's Contributions  
County Employees' Retirement System (CERS)**

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually required contribution	\$ 39,350	\$ 41,976	\$ 53,851							
Actual contribution	39,350	41,976	53,851							
Contribution deficiency (excess)	-	-	-							
Covered employee payroll	316,828	303,828	317,212							
Contributions as a percentage of covered employee payroll	12.42%	13.82%	18.89%							

**Notes to Required Supplementary Information  
for the Year Ended June 30, 2016  
Changes of Assumptions**

The net pension liability as of June 30, 2016, is based on the June 30, 2015, actuarial valuation. The changes to the elements of the pension expense, i.e. the difference between expected and actual experience, net difference between projected and actual earnings on plan investments, changes in assumptions, and the changes in proportion and differences between City's contributions and proportionate share of contributions are detailed in NOTE J in the Notes to the Financial Statements.

**CITY OF LUDLOW, KENTUCKY**  
**MULTIPLE EMPLOYER, COST SHARING, DEFINED BENEFIT PENSION PLAN DISCLOSURE-HAZARDOUS**  
**Last Ten Fiscal Years**

**Schedule of the City's Proportionate Share of the Net Pension Liability**  
**County Employees' Retirement System (CERS)**

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Proportion of net pension liability	0.091799%	0.100286%								
Proportionate share of the net pension liability (asset)	\$ 1,409,219	\$ 1,205,257								
Covered employee payroll in year of measurement	800,838	833,791								
Share of the net pension liability (asset) as a percentage of its covered employee payroll	175.97%	144.55%								
Plan fiduciary net position as a percentage of total pension liability	57.52%	63.46%								

**Schedule of the City's Contributions**  
**County Employees' Retirement System (CERS)**

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually required contributor	\$ 142,544	\$ 114,182	\$ 125,814							
Actual contribution	142,544	114,182	125,814							
Contribution deficiency (excess)	-	-	-							
Covered employee payroll	703,574	800,838	833,791							
Contributions as a percentage of covered employee payroll	20.26%	14.26%	18.89%							

**Notes to Required Supplementary Information**  
**for the Year Ended June 30, 2016**  
**Changes of Assumptions**

The net pension liability as of June 30, 2016, is based on the June 30, 2015, actuarial valuation. The changes to the elements of the pension expense, i.e. the difference between expected and actual experience, net difference between projected and actual earnings on plan investments, changes in assumptions, and the changes in proportion and differences between City's contributions and proportionate share of contributions are detailed in NOTE J in the Notes to the Financial Statements.

<b>CITY OF LUDLOW, KENTUCKY</b> <b>COMBINING BALANCE SHEET - SPECIAL REVENUE FUNDS</b> <b>June 30, 2016</b>
---

	<u>Fire and EMS</u>	<u>Acquisition Fund</u>	<u>Total Special Revenue Funds</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 17,652	\$ -	\$ 17,652
Accounts receivable	-	-	-
<b>Total Assets</b>	<u>\$ 17,652</u>	<u>\$ -</u>	<u>\$ 17,652</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 17,191	\$ -	\$ 17,191
Due to General Fund	<u>147,247</u>	<u>-</u>	<u>147,247</u>
<b>Total Liabilities</b>	<u>164,438</u>	<u>-</u>	<u>164,438</u>
<b>Fund Balances</b>			
Committed	<u>(146,786)</u>	<u>-</u>	<u>(146,786)</u>
<b>Total Fund Balances</b>	<u>(146,786)</u>	<u>-</u>	<u>(146,786)</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 17,652</u>	<u>\$ -</u>	<u>\$ 17,652</u>

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

**CITY OF LUDLOW, KENTUCKY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES - SPECIAL REVENUE FUNDS**  
**For the Year Ended June 30, 2016**

	<u>Fire and EMS</u>	<u>Acquisition Fund</u>	<u>Totals 2016</u>
<b>Revenues</b>			
NSP revenue	\$ -	\$ -	\$ -
Fire and EMS revenue	507,099	-	507,099
<b>Total Revenues</b>	<u>507,099</u>	<u>-</u>	<u>507,099</u>
<b>Expenditures</b>			
Current			
NSP expenditures	-	-	-
Fire and EMS expenditures	544,897	-	544,897
Acquisition expenditures	-	-	-
Capital outlay expenditures	-	-	-
Debt service expenditures	48,111	-	48,111
<b>Total Expenditures</b>	<u>593,008</u>	<u>-</u>	<u>593,008</u>
<b>Excess (Deficit) of Revenues Over (Under) Expenditures Before Other Sources</b>	<u>(85,909)</u>	<u>-</u>	<u>(85,909)</u>
<b>Other Financing Sources (Uses)</b>			
Transfers in	-	-	-
Transfers out	-	(4,614)	(4,614)
Proceeds from loans	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<u>-</u>	<u>(4,614)</u>	<u>(4,614)</u>
<b>Excess (Deficit) of Revenues Over (Under) Expenditures</b>	(85,909)	(4,614)	(90,523)
<b>Fund Balances, Beginning of Year</b>	(60,877)	4,614	(56,263)
<b>Fund Balances, End of Year</b>	<u>\$ (146,786)</u>	<u>\$ -</u>	<u>\$ (146,786)</u>



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

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

**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, 2016 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 March 31, 2017.

***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  
March 31, 2017