

CITY OF LUDLOW, KENTUCKY

FINANCIAL STATEMENTS

For the Year Ended June 30, 2011

CITY OF LUDLOW, KENTUCKY

FINANCIAL STATEMENTS

For the Year Ended June 30, 2011

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTORY SECTION	
City Officials.....	1
FINANCIAL SECTION	
Independent Auditor's Report.....	2-3
Management's Discussion and Analysis.....	4-7
Basic Financial Statements	
Government Wide Financial Statements	
Statement of Net Assets.....	8
Statement of Activities.....	9
Fund Financial Statements	
Balance Sheet - Governmental Funds.....	10
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	11
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	12
Notes to Financial Statements.....	13-24
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - Budget to Actual - General Fund, Fire/EMS Fund, and Municipal Road Aid Fund.....	25
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - All Special Revenue Funds.....	26
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	27-29

CITY OF LUDLOW, KENTUCKY

CITY OFFICIALS

For the Year Ended June 30, 2011

Council Members

Kenneth Wynn, Mayor

Denny Allen

Tom Amann

Josh Boone

C.J. Kleier

Charles Manning

Joyce McMullin

City Management

Brian Houillion, City Administrator

Laurie Sparks, City Clerk

Alice Margolen, Treasurer

Jeff Otis, Attorney



Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Ludlow, Kentucky (City), as of and for the year ended June 30, 2011, which collectively comprises the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Ludlow, Kentucky as of June 30, 2011, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2012 on our consideration of the City of Ludlow, Kentucky's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed

in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 4 through 7, the budgetary comparison information on page 25, and the combining statement on page 26 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



Van Gorder, Walker & Co., Inc.
Erlanger, Kentucky
February 8, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

Reporting the City as a Whole

Financial Highlights

- The ending cash balance for the City was \$174,963, an increase of 165% from 2010.
- Total expenditures increased by 3% due to increased administrative and capital outlay costs.
- The City continues to utilize federal stimulus funds to renovate blighted properties for resale under the Neighborhood Stabilization Program.
- The City has begun maintaining a fund for its Community Development Block Grant, which will serve to provide funding assistance to potential businesses within the City.
- The City continues to acquire new vehicles and equipment to provide the best public safety services to its citizens.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise the following three components: government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government – Wide Financial Statements

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

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

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

The government-wide financial statements outline functions of the City that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the City include Administration, Public Safety, Public Works, Parks and Recreation, 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 two main set of funds – the governmental fund, which consists of the General Fund, and Special Revenue Funds for the Community Development Block Grant, Municipal Aid, Rehab, Fire and EMS, and the Neighborhood Stabilization Program.

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

Notes to the Financial Statements

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

Government-Wide Financial Analysis

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$2,951,303 at June 30, 2011.

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

	<u>2011</u>	<u>2010</u>
Current assets	\$ 356,246	\$ 244,879
Capital assets, net	3,487,206	3,156,707
Total assets	<u>3,843,452</u>	<u>3,401,586</u>
Total liabilities	<u>892,149</u>	<u>979,343</u>
Total net assets	<u>\$ 2,951,303</u>	<u>\$ 2,422,243</u>

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

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

Governmental Activities

The following represents a summary of the City's revenue and expense for the fiscal year ended June 30, 2011 and 2010.

	<u>2011</u>	<u>2010</u>
Revenues		
Charges for services	\$ 911,482	\$ 871,117
Operating grants and contributions	196,937	187,930
Capital grants and contributions	360,524	176,499
General Revenues		
Taxes	1,041,698	993,590
License and permit fees	415,625	412,821
Code Enforcement Board	53,205	22,465
Miscellaneous	88,702	60,035
Police reports/citations	8,373	9,090
Proceeds from disposal of property	117,875	-
Unrestricted investment earnings	63	120
Total revenues:	<u>3,194,484</u>	<u>2,733,667</u>
Expenses		
Legislative and administrative	989,279	798,435
Fire and EMS expenses	348,706	373,662
Municipal aid expenses	35,888	172,945
Main Street/Renaissance	15,099	20,797
Neighborhood Stabilization Program	21,890	73,967
Park department	7,560	16,159
Public safety	1,014,502	1,110,063
Public works	216,033	216,742
Rehab	161	20,738
interest on long-term debt	16,306	13,694
Total expenses:	<u>2,665,424</u>	<u>2,817,202</u>
Revenues in excess (deficiency) of expenses:	<u>\$ 529,060</u>	<u>\$ (83,535)</u>

Economic Factors and Next Year's Budget

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

Contacting the City's Financial Management

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

CITY OF LUDLOW, KENTUCKY
STATEMENT OF NET ASSETS
June 30, 2011

	<u>Primary Government</u>
	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 174,963
Accounts receivable	42,655
Insurance tax receivable	123,713
Property taxes/sanitation fees receivable	14,915
Capital assets	
Land (not depreciated)	1,066,000
Assets held for sale (not depreciated)	367,782
Property, plant and equipment, net of depreciation	<u>2,053,424</u>
TOTAL ASSETS	<u>3,843,452</u>
LIABILITIES	
Accounts payable	1,693
Accrued payroll and payroll taxes	38,468
Long-term liabilities	
Compensated absences	65,000
Due within one year	112,440
Due in more than one year	<u>674,548</u>
TOTAL LIABILITIES	<u>892,149</u>
NET ASSETS	
Invested in capital assets, net of related debt	2,332,436
Unrestricted	<u>618,867</u>
TOTAL NET ASSETS	<u>\$ 2,951,303</u>

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

CITY OF LUDLOW, KENTUCKY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary Government					
Legislative and administrative	\$ 989,279	\$ 372,009	\$ -	\$ 22,310	\$ (594,960)
Public safety	1,014,502	117,800	95,756	-	(800,946)
Public works	216,033	-	-	-	(216,033)
Park and recreation	7,560	-	-	-	(7,560)
Main Street/Renaissance	15,099	-	-	-	(15,099)
Rehab	161	-	-	-	(161)
Neighborhood Stabilization Program	21,890	-	-	338,214	316,324
Municipal aid	35,888	-	101,181	-	65,293
Fire and EMS	348,706	421,673	-	-	72,967
Interest on long-term debt	16,306	-	-	-	(16,306)
Total Primary Government	\$ 2,665,424	\$ 911,482	\$ 196,937	\$ 360,524	(1,195,481)
General revenues					
Taxes					
Property taxes, levied for general purposes					509,603
Insurance premium taxes, levied for general purposes					526,377
Penalties and interest on delinquent taxes and waste fees					5,718
Licenses and permit fees					
Payroll/gross receipts license fees					299,245
Vehicle sticker license					28,707
Permits					2,222
Franchise fees					43,176
Licenses					42,275
Code enforcement/blight abatement					53,205
Miscellaneous					88,702
Police reports/citations					8,373
Proceeds from disposal of property					117,875
Unrestricted investment earnings					63
Total general revenues and special items					1,725,541
Change in net assets					529,060
Net assets, beginning					2,422,243
Net assets, ending					\$ 2,951,303

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

CITY OF LUDLOW, KENTUCKY
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2011

	General Fund	Special Revenue Funds	Total Governmental Funds 2011	Memo Only 2010
ASSETS				
Cash and cash equivalents	\$ 38,869	\$ 136,094	\$ 174,963	\$ 66,016
Accounts receivable	22,060	20,595	42,655	20,764
Taxes receivable	14,915	-	14,915	17,818
Insurance tax receivable	123,713	-	123,713	140,281
Due from other funds	-	50,324	50,324	110,324
TOTAL ASSETS	\$ 199,557	\$ 207,013	\$ 406,570	\$ 355,203
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 1,693	\$ -	\$ 1,693	\$ 6,381
Accrued payroll and payroll taxes	38,468	-	38,468	22,673
Due to other funds	50,324	-	50,324	110,324
TOTAL LIABILITIES	90,485	-	90,485	139,378
FUND BALANCES				
Reported in:				
General fund - unassigned	109,072	-	109,072	66,215
Community development block grant fund - restricted	-	48	48	-
Municipal road aid fund - restricted	-	162,467	162,467	97,174
Neighborhood stabilization program fund - restricted	-	89	89	(3,104)
Fire and EMS fund - committed	-	38,838	38,838	43,817
Rehabilitation fund - committed	-	5,571	5,571	11,723
TOTAL FUND BALANCES	109,072	207,013	316,085	215,825
TOTAL LIABILITIES AND FUND BALANCES	\$ 199,557	\$ 207,013	\$ 406,570	\$ 355,203
Total governmental fund balances			\$ 316,085	
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets of \$29,508,878, net of accumulated depreciation of (\$26,021,672), used in governmental activities are not financial resources and, therefore, are not reported in the funds.				
			3,487,206	
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.				
Capital leases			(154,840)	
Compensated absences			(65,000)	
Notes payable			(632,148)	
Net assets of governmental activities			\$ 2,951,303	

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, 2011

	Governmental Fund Types		Totals	
	General	Special Revenue	2011	Memo Only 2010
REVENUES				
General fund revenue	\$ 2,215,496	\$ -	\$ 2,215,496	\$ 2,101,122
Rehab revenue	-	4	4	9,583
NSP revenue	-	338,214	338,214	125,614
Municipal road aid fund revenue	-	101,181	101,181	86,220
Fire and EMS revenue	-	421,714	421,714	411,128
TOTAL REVENUES	<u>2,215,496</u>	<u>861,113</u>	<u>3,076,609</u>	<u>2,733,667</u>
EXPENDITURES				
Current				
Administrative expenses	884,366	-	884,366	783,355
Police department expenses	963,364	-	963,364	1,061,382
Public works expenses	201,389	-	201,389	206,011
Park department expenses	6,200	-	6,200	14,256
Main Street / Renaissance	15,099	-	15,099	20,797
Rehab expenses	-	161	161	20,738
NSP expenses	-	21,890	21,890	128,618
Municipal aid expenses	-	35,888	35,888	132,632
Fire and EMS expenses	-	348,707	348,707	373,662
Capital outlay	160,991	344,519	505,510	105,626
Debt service	87,374	40,253	127,627	160,355
TOTAL EXPENDITURES	<u>2,318,783</u>	<u>791,418</u>	<u>3,110,201</u>	<u>3,007,432</u>
EXCESS (DEFICIT) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(103,287)</u>	<u>69,695</u>	<u>(33,592)</u>	<u>(273,765)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	12,292	48	12,340	17,651
Transfers out	-	(12,340)	(12,340)	(17,651)
Loan proceeds	15,977	-	15,977	29,500
Proceeds from disposal of property	117,875	-	117,875	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>146,144</u>	<u>(12,292)</u>	<u>133,852</u>	<u>29,500</u>
EXCESS (DEFICIT) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES	<u>42,857</u>	<u>57,403</u>	<u>100,260</u>	<u>(244,265)</u>
FUND BALANCES BEGINNING OF YEAR	<u>66,215</u>	<u>149,610</u>	<u>215,825</u>	<u>460,090</u>
FUND BALANCES END OF YEAR	<u>\$ 109,072</u>	<u>\$ 207,013</u>	<u>\$ 316,085</u>	<u>\$ 215,825</u>

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

<p>CITY OF LUDLOW, KENTUCKY RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES For the Year Ended June 30, 2011</p>
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Net change in fund balances - total governmental funds **\$ 100,260**

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	505,510
Depreciation expense	(145,011)

Proceeds from the disposal of capital assets are recorded in the governmental funds as other financing sources. A gain or loss on disposal of capital assets is recorded in the statement of activities but not in the governmental funds.	(30,000)
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The proceeds of loans and leases increase revenue in the governmental funds, but the proceeds increase long-term liabilities in the statement of net assets.	(15,977)
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Repayment of note and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	107,383
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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	4,611
Accrued interest	2,284

Change in net assets of governmental activities	\$ 529,060
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The accompanying notes are an integral part of these financial statements.

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. The City has one component unit or entity for which the government is considered to be financially accountable - Public Properties Corporation.

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

CITY OF LUDLOW, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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.

If applicable, operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

CITY OF LUDLOW, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Fund Types

The City reports the following governmental funds:

General Fund

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

Special Revenue Funds

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

Cash and Cash Equivalents and Investments

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

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

The City's investments are categorized to give an indication of the level of risk assumed by the City at June 30, 2011. The categories are described as follows:

Category 1 - Insured and registered, with securities held by the entity or its agent in the entity's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name.

Category 3 - Uninsured and unregistered, with securities held by the counterparty, or its trust department agent but not in the entity's name.

CITY OF LUDLOW, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
 June 30, 2011

Fund	Category			Fair Value
	1	2	3	
General	\$ 38,869	\$ -	\$ -	\$ 38,869
Special Revenue	136,094	-	-	136,094
Totals	<u>\$ 174,963</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 174,963</u>

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, 2011, 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. The City maintains deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). As allowed by law, the depository has pledged securities, in conjunction with the FDIC insurance, in an amount at least equal to the amount of City funds on deposit at all times. As of June 30, 2011, the City's deposits are entirely insured with FDIC insurance and/or collateralized with securities held by the financial institutions on the City's behalf.

Capital Assets

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

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

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

CITY OF LUDLOW, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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, 2011, as reported in the government-wide financial statements, is \$65,000.

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. Long term debt reported in the government-wide financial statements at June 30, 2011 was \$786,988, of which \$112,440 is due within the next year.

Fund Equity

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

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

Inter-Fund Receivables/Payables

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

Inventories and Prepaid Items

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

CITY OF LUDLOW, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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.

CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2011

The following functions had expenditures in excess of legally adopted appropriations for the year ended June 30, 2011:

<u>Budget Line</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Capital improvements	\$ 110,310	\$ 192,379	\$ (82,069)
Main street/renaissance	-	15,099	(15,099)

Excess of expenditures over budgeted appropriations in capital improvements only exists due to reclassification of expenses for budgetary presentation purposes out of the general fund and the fire/EMS fund, which still maintain sufficient positive variances.

NOTE C – 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 D – CAPITAL ASSETS AND DEPRECIATION

The following is a summary of changes in capital assets for the year ended June 30, 2011:

<u>Asset type</u>	<u>Balance June 30, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2011</u>
Land (not depreciated)	\$ 1,096,000	\$ -	\$ (30,000)	\$ 1,066,000
Assets held for sale (not depreciated)	54,651	313,131	-	367,782
Infrastructure	24,355,292	131,747	-	24,487,039
Buildings and equipment	3,216,426	21,428	(778,654)	2,459,200
Vehicles	1,118,653	39,204	(29,000)	1,128,857
Total fixed assets	29,841,022	505,510	(837,654)	29,508,878
Accumulated depreciation	(26,684,315)	(145,011)	807,654	(26,021,672)
Total assets, net	<u>\$ 3,156,707</u>	<u>\$ 360,499</u>	<u>\$ (30,000)</u>	<u>\$ 3,487,206</u>

NOTE E – LONG-TERM DEBT

Long-term debt consists of the following:

Fire Truck/Ambulance

The City executed a lease-purchase agreement on October 15, 1997 for an ambulance and fire truck capitalized at a cost of \$465,000. This secured lease was refinanced during March 2003 for a 2.68% interest rate. The original term of the lease-purchase agreement is 15 years.

CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2011

Annual lease payment requirements to maturity, including principal and interest portions, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total Payment
2012	\$ 38,931	\$ 1,322	\$ 40,253
2013	19,859	270	20,129
Total	<u>\$ 58,790</u>	<u>\$ 1,592</u>	<u>\$ 60,382</u>

Equipment Capital Lease – Fifth Third Bank

On April 17, 2006, the City executed a capital lease with Fifth Third Bank in the amount of \$148,000 for the purchase of three police cruisers and the purchase of a pick-up truck for Fire & EMS use. This lease has an assumed interest rate of 5.10% and matures on January 5, 2012. Remaining annual debt service requirements are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total Payment
2012	\$ 28,917	\$ 356	\$ 29,273
Total	<u>\$ 28,917</u>	<u>\$ 356</u>	<u>\$ 29,273</u>

Equipment Capital Lease – Citicapital

On August 1, 2007, the City executed a 5.460% three-year lease with Citicapital for the purchase of a Bobcat loader at a cost of \$20,181. Final payment in the amount of \$606 was made on this lease in July 2010.

Equipment Capital Lease – Farmers Bank and Capital Trust Company

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

Fiscal Year Ending June 30,	Principal	Interest	Total Payment
2012	\$ 9,001	\$ 1,133	\$ 10,134
2013	9,551	583	10,134
Total	<u>\$ 18,552</u>	<u>\$ 1,716</u>	<u>\$ 20,268</u>

On December 11, 2008, the City executed a second lease with Farmers Bank and Capital Trust Company for the purchase of a police vehicle at a cost of \$20,756. This secured

CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2011

lease carries an interest rate of 4.29% and matures on November 1, 2013. Remaining annual debt service requirements are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total Payment
2012	\$ 4,158	\$ 554	\$ 4,712
2013	4,340	372	4,712
2014	4,457	182	4,639
Total	<u>\$ 12,955</u>	<u>\$ 1,108</u>	<u>\$ 14,063</u>

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

Fiscal Year Ending June 30,	Principal	Interest	Total Payment
2012	\$ 5,656	\$ 1,063	\$ 6,719
2013	5,910	809	6,719
2014	6,176	543	6,719
2015	6,345	373	6,718
Total	<u>\$ 24,087</u>	<u>\$ 2,788</u>	<u>\$ 26,875</u>

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	Total Payment
2012	\$ 20,451	\$ 18,642	\$ 39,093
2013	21,072	18,019	39,091
2014	21,714	17,378	39,092
2015	21,462	15,873	37,335
2016	22,246	16,695	38,941
2017-2033	525,203	164,648	689,851
Total	<u>\$ 632,148</u>	<u>\$ 251,255</u>	<u>\$ 883,403</u>

CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2011

Capital Lease – GE Capital Solutions

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

Fiscal Year Ending June 30,	Principal	Interest	Total Payment
2012	\$ 5,328	\$ -	\$ 5,328
2013	5,328	-	5,328
2014	883	-	883
Total	<u>\$ 11,539</u>	<u>\$ -</u>	<u>\$ 11,539</u>

NOTE F – INDEBTEDNESS SUMMARY

The changes in long-term indebtedness for 2011 are as follows:

Debt Instrument	Balance at June 30 2010	Additions	Retirements	Balance at June 30 2011
Fifth Third Bank 1997 Capital Lease	\$ 96,694	\$ -	\$ 37,904	\$ 58,790
Citicapital Lease	606	-	606	-
Farmers Bank and Trust Lease	73,474	-	17,880	55,594
Fifth Third Bank 2006 Capital Lease	55,399	-	26,482	28,917
GE Capital Solutions Capital Lease	-	15,977	4,438	11,539
KLC Funding Trust Lease	652,221	-	20,073	632,148
Subtotal	<u>878,394</u>	<u>\$ 15,977</u>	<u>\$ (107,383)</u>	<u>786,988</u>
Less: current portion of long-term debt	(105,330)			(112,440)
Total Long-Term Indebtedness	<u>\$ 773,064</u>			<u>\$ 674,548</u>

NOTE G – 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 H – 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.

CITY OF LUDLOW, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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, 2011, plan members were required to contribute 8% of their annual creditable compensation. Any plan members that entered the retirement plan after August 31, 2008 are required to contribute an additional 1% of their annual creditable compensation for health insurance. The state was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute (KRS) Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis 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, 2010 participating employers contributed an actuarially determined rate set by the Board of 33.25% 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 16.93% of the non-hazardous duty employee's compensation during the year ended June 30, 2011.

For the year ended June 30, 2011, the City contributed \$232,310 to this plan.

NOTE I – CLAIMS AND JUDGMENTS

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal governments. 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 J – 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

CITY OF LUDLOW, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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 K – NEIGHBORHOOD STABILIZATION PROGRAM

During the year ended June 30, 2011, the City received federal stimulus funds in order to renovate various properties located in the City for resale to potential homebuyers. The City received \$338,214 for this project during the year. Additions to non-depreciable property being held by the City for this purpose totaled \$313,131 at June 30, 2011.

NOTE L – 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.

CITY OF LUDLOW, KENTUCKY

BUDGETARY COMPARISON SCHEDULE- BUDGET TO ACTUAL- GENERAL FUND, FIRE/EMS FUND, COMMUNITY DEVELOPMENT BLOCK GRANT FUND, MUNICIPAL ROAD AID FUND, AND NEIGHBORHOOD STABILIZATION PROGRAM FUND

For the Year Ended June 30, 2011

	Budgeted Amounts						Variance with Final Budget Favorable (Unfavorable)		
	Original	Revisions	Final	General	Fire/EMS	Community Development Block Grant		Municipal Road Aid	Neighborhood Stabilization Program
Budgetary fund balance, July 1, 2010	\$ -	\$ -	\$ -	\$ -	\$ 43,817	\$ -	\$ 97,174	\$ (3,104)	\$ 204,102
Resources (inflows)									
General government revenue	1,973,171	-	1,973,171	2,193,186	-	-	-	-	220,015
Municipal road aid	65,500	-	65,500	-	-	-	101,181	-	35,681
Fire property assessment tax fund	350,000	-	350,000	-	349,320	-	-	-	(680)
Other fire revenue	53,150	-	53,150	-	72,394	-	-	-	19,244
CDBG grant income	-	500,000	500,000	-	-	-	-	-	(500,000)
Capital improvements fund	390,000	-	390,000	140,185	-	-	-	338,214	88,309
Prior year carryforward	122,680	-	122,680	-	-	-	-	-	(122,680)
Transfers in	-	-	-	12,292	-	48	-	-	12,292
Amounts available for appropriation	2,954,501	500,000	3,454,501	2,411,578	485,531	48	198,355	335,110	(43,627)
Charges to appropriations (outflows)									
Legislative and administrative	809,909	-	809,909	915,407	-	-	-	21,890	(127,388)
Police	1,063,268	(94)	1,063,174	1,014,219	-	-	-	-	48,955
Public works	209,268	-	209,268	190,590	-	-	-	-	18,378
Parks and recreation	13,500	-	13,500	6,200	-	-	-	-	7,300
Main street/maintenance	-	-	-	15,099	-	-	-	-	(15,099)
CDBG grant	-	500,000	500,000	-	-	-	-	-	500,000
Capital improvements fund	390,000	-	390,000	160,991	31,368	-	-	313,131	(115,510)
Municipal road aid	65,500	-	65,500	-	-	-	35,888	-	29,612
Fire/EMS fund	403,150	-	403,150	-	388,960	-	-	-	14,190
Transfers out	-	-	-	-	8,345	-	-	-	(8,345)
Total charges to appropriations	2,954,595	499,906	3,454,501	2,302,806	426,663	-	35,888	335,021	354,093
Budgetary fund balance, June 30, 2011	\$ (94)	\$ 94	\$ -	\$ 109,072	\$ 38,836	\$ 48	\$ 162,407	\$ 89	\$ 310,400

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
Year Ended June 30, 2011

	Rehabilitation Fund	Neighborhood Stabilization Program	Municipal Road Aid Fund	Fire and EMS	Community Development Block Grant	Totals Memo Only	
						2011	2010
REVENUES							
Rehab revenue	\$ 4	\$ -	\$ -	\$ -	\$ -	\$ 4	\$ 9,583
NSP revenue	-	338,214	-	-	-	338,214	125,614
Municipal road aid revenue	-	-	101,181	-	-	101,181	86,220
Fire and EMS revenue	-	-	-	421,714	-	421,714	411,128
TOTAL REVENUES	4	338,214	101,181	421,714	-	861,113	632,545
EXPENDITURES							
Current							
Rehab expenditures	161	-	-	-	-	161	20,738
NSP expenditures	-	21,890	-	-	-	21,890	128,618
Municipal road aid expenditures	-	-	35,888	-	-	35,888	132,632
Fire and EMS expenditures	-	-	-	348,707	-	348,707	373,662
Capital outlay expenditures	-	313,131	-	31,388	-	344,519	3,500
Debt service expenditures	-	-	-	40,253	-	40,253	40,253
TOTAL EXPENDITURES	161	335,021	35,888	420,348	-	791,418	699,403
EXCESS/(DEFICIT) OF REVENUES OVER/(UNDER)EXPENDITURES BEFORE OTHER SOURCES							
	(157)	3,193	65,293	1,366	-	69,695	(66,658)
OTHER FINANCING SOURCES (USES)							
Transfers in	-	-	-	-	48	48	-
Transfers out	(5,995)	-	-	(6,345)	-	(12,340)	(17,651)
TOTAL OTHER FINANCING SOURCES (USES)	(5,995)	-	-	(6,345)	48	(12,292)	(17,651)
EXCESS/(DEFICIT) OF REVENUES OVER/(UNDER)EXPENDITURES							
	(6,152)	3,193	65,293	(4,979)	48	57,403	(84,509)
FUND BALANCES BEGINNING OF YEAR							
	11,723	(3,104)	97,174	43,817	-	149,610	234,119
FUND BALANCES END OF YEAR							
	\$ 5,571	\$ 89	\$ 182,467	\$ 38,838	\$ 48	\$ 207,013	\$ 149,610

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

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

We have audited the financial statements of the governmental activities and each major fund of the City of Ludlow, Kentucky (City), as of and for the year ended June 30, 2011, which collectively comprise the City of Ludlow, Kentucky's basic financial statements and have issued our report thereon dated February 8, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Ludlow, Kentucky's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Ludlow, Kentucky's financial statements that is more than inconsequential will not be prevented or detected by the City of Ludlow, Kentucky's internal control. We consider the

deficiencies described below to be significant deficiencies in internal control over financial reporting.

Lack of Segregation of Duties

Condition: We noted that, due to the size of the City and financial considerations, the executing and recording of transactions are performed by the same person.

Criteria: The process of executing a transaction should be segregated from the process of recording the transaction.

Effect: Segregation of duties is a necessary part of any system of internal control. Lack of segregation of duties could allow for receipts to be diverted away from the City and expenses not attributed to the City could be paid for from the City's cash account.

Recommendation: Internal controls should continue to be implemented to segregate the duties of the personnel. Controls should be monitored to ascertain that they are sufficient to reduce the risk of material misstatement to an acceptable level.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Ludlow, Kentucky's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Ludlow, Kentucky in a separate letter dated February 8, 2012.

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

Van Gorder, Walker & Co., Inc.

Van Gorder, Walker & Co., Inc.
Erlanger, Kentucky
February 8, 2012