

**CITY OF LUDLOW, KENTUCKY**

**FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2013**

<p><b>CITY OF LUDLOW, KENTUCKY</b></p> <p><b>FINANCIAL STATEMENTS</b></p> <p><b>For the Year Ended June 30, 2013</b></p>
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**CITY OF LUDLOW, KENTUCKY**

**CITY OFFICIALS**

**For the Year Ended June 30, 2013**

**Council Members**

Kenneth Wynn, Mayor

Tom Amann

Josh Boone

Amy Clary

Joyce McMullin

Bill Mullins

Randy Wofford

**City Management**

Brian Richmond, City Administrator

Laurie Sparks, City Clerk

Alice Margolen, Treasurer

Tom Miller, Attorney



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

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

## 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, and each major fund of the City of Ludlow, Kentucky, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

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

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

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

**-Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the City of Ludlow, Kentucky as of June 30, 2013 and the respective changes in financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

***-Required Supplementary Information***

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

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The budgetary comparison schedule on page 32 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The budgetary comparison schedule has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on it.

***-Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The combining non-major special revenue funds schedules on page 33 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 April 7, 2014 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  
April 7, 2014

## **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 \$276,832, a decrease of 49% from 2012.
- The City continues to utilize federal stimulus funds to renovate blighted properties for resale under the Neighborhood Stabilization Program.
- The City continued to receive funding from the federal government to finance its Elm Street "streetscape" project.
- The City received a Community Development Block Grant, which is being used to provide funding assistance to the City's new supermarket, the Riverside Marketplace. These funds will be repaid to the City and, in turn, the City will develop a Revolving Loan Fund to assist additional businesses.
- The City continues to acquire new vehicles and equipment to provide the best public safety services to its citizens.

#### **Overview of Financial Statements**

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

#### ***Government – Wide Financial Statements***

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

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

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

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

### ***Fund Financial Statements***

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

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

### **Notes to the Financial Statements**

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



### Government-Wide Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$3,667,799 at June 30, 2013.

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

	<u>2013</u>	<u>2012</u>
Current assets	\$ 382,621	\$ 728,356
Capital assets, net	<u>4,439,604</u>	<u>4,707,024</u>
Total assets	<u>4,822,225</u>	<u>5,435,380</u>
Total liabilities	<u>1,154,426</u>	<u>1,098,017</u>
Total net position	<u><u>\$ 3,667,799</u></u>	<u><u>\$ 4,337,363</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 revenue and expense for the fiscal years ended June 30, 2013 and 2012.

	<u>2013</u>	<u>2012</u>
<b>Revenues</b>		
Charges for services	\$ 504,448	\$ 557,772
Operating grants and contributions	678,142	559,465
Capital grants and contributions	255,637	1,322,969
General Revenues		
Taxes	1,099,344	1,145,389
License and permit fees	427,964	422,819
Code Enforcement Board	64,776	9,253
Miscellaneous	30,121	72,051
Loss on disposal of assets	(154,260)	-
Unrestricted investment earnings	48	37
Total revenues:	<u>2,906,220</u>	<u>4,089,755</u>
<b>Expenses</b>		
Legislative and administrative	1,090,432	954,028
Fire and EMS expenses	630,203	424,478
Municipal aid expenses	194,847	77,567
Main Street/Renaissance	42,597	-
Neighborhood Stabilization Program	5,000	10,024
Park department	18,655	-
Public safety	934,615	966,412
Public works	208,331	216,940
Rehab	5,096	-
Interest on long-term debt	16,518	15,895
Total expenses:	<u>3,146,294</u>	<u>2,665,344</u>
Transfers out to proprietary fund	<u>(5,571)</u>	<u>(462,270)</u>
<b>Change in Net Position</b>	<u><u>\$ (245,645)</u></u>	<u><u>\$ 962,141</u></u>

## Business-type Activities

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

	<u>2013</u>	<u>2012</u>
<b>Revenues</b>		
Charges for services	\$ 26,148	\$ 8,045
General Revenues		
Sales taxes	745	228
Total revenues:	<u>26,893</u>	<u>8,273</u>
<b>Expenses</b>		
Revolving loan fund	92,969	46,624
Total expenses:	<u>92,969</u>	<u>46,624</u>
Transfers in	<u>5,571</u>	<u>-</u>
<b>Change in Net Position</b>	<u>\$ (60,505)</u>	<u>\$ (38,351)</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.

<b>CITY OF LUDLOW, KENTUCKY</b> <b>STATEMENT OF NET POSITION</b> <b>June 30, 2013</b>
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	<u>Primary Government</u>		
	<u>Governmental</u>	<u>Business-type</u>	
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 237,038	\$ 39,794	\$ 276,832
Accounts receivable	145,583	-	145,583
Capital assets			
Land (not depreciated)	1,066,000	-	1,066,000
Assets held for sale (not depreciated)	584,815	-	584,815
Property, plant and equipment, net of depreciation	<u>2,788,789</u>	<u>323,620</u>	<u>3,112,409</u>
<b>TOTAL ASSETS</b>	<u>4,822,225</u>	<u>363,414</u>	<u>5,185,639</u>
<b>LIABILITIES</b>			
Accounts payable	30	-	30
Accrued payroll and payroll taxes	6,432	-	6,432
Long-term liabilities			
Compensated absences	56,798	-	56,798
Due within one year	79,755	-	79,755
Due in more than one year	<u>1,011,411</u>	<u>-</u>	<u>1,011,411</u>
<b>TOTAL LIABILITIES</b>	<u>1,154,426</u>	<u>-</u>	<u>1,154,426</u>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	2,763,623	323,620	3,087,243
Restricted	-	39,794	39,794
Unrestricted	<u>904,176</u>	<u>-</u>	<u>904,176</u>
<b>TOTAL NET POSITION</b>	<u>\$ 3,667,799</u>	<u>\$ 363,414</u>	<u>\$ 4,031,213</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, 2013**

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) & Changes in Net Po		
		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	\$ 1,109,086	\$ 458,913	\$ -	\$ -	\$ (650,173)	\$ -	\$ (650,173)
Public safety	934,615	45,535	-	-	(889,080)	-	(889,080)
Public works	208,331	-	58,127	-	(150,204)	-	(150,204)
Neighborhood Stabilization Program	5,000	-	-	138,103	133,103	-	133,103
Streets	237,444	-	115,380	112,534	(9,530)	-	(9,530)
Fire and EMS	630,203	-	504,635	-	(125,568)	-	(125,568)
Community Development Block Grant	5,000	-	-	5,000	-	-	-
Acquisition	96	-	-	-	(96)	-	(96)
Interest on long-term debt	16,518	-	-	-	(16,518)	-	(16,518)
<b>Total governmental activities</b>	<u>3,146,293</u>	<u>504,448</u>	<u>678,142</u>	<u>255,637</u>	<u>(1,708,066)</u>	<u>-</u>	<u>(1,708,066)</u>
<b>Business-type activities</b>							
Revolving loan fund	92,969	26,148	-	-	-	(66,821)	(66,821)
<b>Total Primary Government</b>	<u>\$ 3,239,262</u>	<u>\$ 530,596</u>	<u>\$ 678,142</u>	<u>\$ 255,637</u>	<u>(1,708,066)</u>	<u>(66,821)</u>	<u>(1,774,887)</u>
<b>General revenues</b>							
Taxes							
Property taxes, levied for general purposes					560,638	-	560,638
Insurance premium taxes, levied for general purposes					528,615	-	528,615
Penalties and interest on delinquent taxes and waste fees					10,090	-	10,090
Sales tax received					-	745	745
Licenses and permit fees							
Payroll/gross receipts license fees					299,847	-	299,847
Vehicle sticker license					36,972	-	36,972
Franchise fees					40,105	-	40,105
Licenses and permits					51,040	-	51,040
Code enforcement/blight abatement					64,776	-	64,776
Loss on disposal of assets					(154,260)	-	(154,260)
Miscellaneous					30,121	-	30,121
Unrestricted investment earnings					48	-	48
Transfers					(5,571)	5,571	-
<b>Total general revenues and transfers</b>					<u>1,462,421</u>	<u>6,316</u>	<u>1,468,737</u>
<b>Change in net position</b>					(245,645)	(60,505)	(306,150)
<b>Net position, beginning</b>					3,913,444	423,919	4,337,363
<b>Net position, ending</b>					<u>\$ 3,667,799</u>	<u>\$ 363,414</u>	<u>\$ 4,031,213</u>

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

<b>CITY OF LUDLOW, KENTUCKY</b> <b>BALANCE SHEET - GOVERNMENTAL FUNDS</b> <b>June 30, 2013</b>
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	General Fund	Special Revenue Funds	Total Governmental Funds 2013	Memo Only 2012
<b>ASSETS</b>				
Cash and cash equivalents	\$ 27,789	\$ 209,249	\$ 237,038	\$ 526,078
Accounts receivable	32	10,057	10,089	10,605
Taxes receivable	3,639	-	3,639	22,213
Insurance tax receivable	131,855	-	131,855	127,184
Grants receivable	-	-	-	34,440
Due from other funds	116,518	154,449	270,967	150,323
<b>TOTAL ASSETS</b>	<b>\$ 279,833</b>	<b>\$ 373,755</b>	<b>\$ 653,588</b>	<b>\$ 870,843</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 30		\$ 30	\$ 350,000
Accrued payroll and payroll taxes	6,432	-	6,432	1,329
Due to other funds	154,449	116,518	270,967	150,323
<b>TOTAL LIABILITIES</b>	<b>160,911</b>	<b>116,518</b>	<b>277,429</b>	<b>501,652</b>
<b>FUND BALANCES</b>				
Reported in:				
General fund - unassigned	118,922	-	118,922	130,777
Community development block grant fund - restricted	-	50	50	50
Municipal road aid fund - restricted	-	277,461	277,461	230,555
Neighborhood stabilization program fund - restricted	-	(120)	(120)	667
Fire and EMS fund - committed	-	(64,058)	(64,058)	1,571
Acquisition Fund	-	43,904	43,904	-
Rehabilitation fund - committed	-	-	-	5,571
<b>TOTAL FUND BALANCES</b>	<b>118,922</b>	<b>257,237</b>	<b>376,159</b>	<b>369,191</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 279,833</b>	<b>\$ 373,755</b>	<b>\$ 653,588</b>	<b>\$ 870,843</b>
Total governmental fund balances			\$ 376,159	
Amounts reported for governmental activities in the statement of net position are different because:				
Capital assets of \$30,536,475, net of accumulated depreciation of (\$26,096,871), used in governmental activities are not financial resources and, therefore, are not reported in the funds.			4,439,604	
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.				
Capital leases			(496,498)	
Compensated absences			(56,798)	
Notes payable			(594,668)	
Net position of governmental activities			<b>\$ 3,667,799</b>	

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

<b>CITY OF LUDLOW, KENTUCKY</b> <b>STATEMENT OF REVENUES, EXPENDITURES AND CHANGES</b> <b>IN FUND BALANCES - GOVERNMENTAL FUNDS</b> <b>For the Year Ended June 30, 2013</b>
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	Governmental Fund Types		Totals	
	General	Special Revenue	2013	Memo Only 2012
<b>REVENUES</b>				
General fund revenue	\$ 2,179,928	\$ -	\$ 2,179,928	\$ 2,559,224
Capital Improvement	112,534	-	112,534	-
NSP revenue	-	138,103	138,103	237,553
Municipal road aid fund revenue	-	115,380	115,380	95,732
Fire and EMS revenue	-	497,524	497,524	734,929
CDBG revenue	-	5,000	5,000	462,317
<b>TOTAL REVENUES</b>	<u>2,292,462</u>	<u>756,007</u>	<u>3,048,469</u>	<u>4,089,755</u>
<b>EXPENDITURES</b>				
Current				
Administrative expenditures	1,042,775	-	1,042,775	933,259
Police department expenditures	905,645	-	905,645	967,535
Public works expenditures	185,909	-	185,909	202,727
Park department expenditures	17,295	-	17,295	-
Main Street / Renaissance expenditures	42,597	-	42,597	-
NSP expenditures	-	5,000	5,000	10,024
Municipal aid expenditures	-	138,411	138,411	21,131
Fire and EMS expenditures	-	542,488	542,488	385,547
CDBG Grant	-	5,000	5,000	-
Acquisition expenditures	-	96	96	-
Capital outlay	142,279	393,027	535,306	953,339
Debt service	39,460	151,217	190,677	125,422
<b>TOTAL EXPENDITURES</b>	<u>2,375,960</u>	<u>1,235,239</u>	<u>3,611,199</u>	<u>3,598,984</u>
<b>EXCESS (DEFICIT) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(83,498)</u>	<u>(479,232)</u>	<u>(562,730)</u>	<u>490,771</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	71,798	71,798	6,558
Transfers out	(71,798)	(5,571)	(77,369)	(468,828)
Loan proceeds	138,542	424,717	563,259	24,605
Proceeds from disposal of property	4,899	7,111	12,010	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>71,643</u>	<u>498,055</u>	<u>569,698</u>	<u>(437,665)</u>
<b>EXCESS (DEFICIT) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES</b>	<u>(11,855)</u>	<u>18,823</u>	<u>6,968</u>	<u>53,106</u>
<b>FUND BALANCES BEGINNING OF YEAR</b>	<u>130,777</u>	<u>238,414</u>	<u>369,191</u>	<u>316,085</u>
<b>FUND BALANCES END OF YEAR</b>	<u>\$ 118,922</u>	<u>\$ 257,237</u>	<u>\$ 376,159</u>	<u>\$ 369,191</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, 2013</b></p>
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<b>Net change in fund balances - total governmental funds</b>	\$	6,968
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>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.</p>		
Capital asset purchases		535,306
Depreciation expense		(232,383)
Loss on disposal of assets		(154,260)
<p>The proceeds of loans and leases increase revenue in the governmental funds, but the proceeds increase long-term liabilities in the statement of net position.</p>		
		(563,259)
<p>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.</p>		
		174,159
<p>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.</p>		
Compensated absences		(12,176)
<b>Change in net position of governmental activities</b>	<b>\$</b>	<b><u>(245,645)</u></b>

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, 2013</b>
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**ASSETS**

Current Assets	
Cash and cash equivalents	\$ 39,794
Total Current Assets	<u>39,794</u>

Noncurrent Assets	
Equipment - Riverside Marketplace	462,315
Less accumulated depreciation	<u>(138,695)</u>
Total Noncurrent Assets	<u>323,620</u>

<b>TOTAL ASSETS</b>	<b><u>\$ 363,414</u></b>
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**NET POSITION**

Invested in capital assets, net of related debt	\$ 323,620
Restricted	<u>39,794</u>

<b>TOTAL NET POSITION</b>	<b><u>\$ 363,414</u></b>
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The accompanying notes are an integral part of the financial statements.

<b>CITY OF LUDLOW, KENTUCKY</b> <b>STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - REVOLVING</b> <b>LOAN FUND</b> <b>For the Year Ended June 30, 2013</b>
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**OPERATING REVENUES**

Lease principal income	\$ 21,587
Lease interest income	4,561
Sales tax collected	745
	<hr/>

**TOTAL OPERATING REVENUES**

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26,893

**OPERATING EXPENSES**

Bank fees	-
Depreciation expense	92,463
Sales tax remitted	506
	<hr/>

**TOTAL OPERATING EXPENSES**

---

92,969

**OPERATING LOSS**

(66,076)

**TRANSFERS IN, NET**

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5,571

**CHANGE IN NET POSITION**

(60,505)

**NET POSITION, JULY 1**

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423,919

**NET POSITION, JUNE 30**

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**\$ 363,414**

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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, 2013</b>
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<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Received from customers	\$ 26,893
Paid to suppliers for goods and services	<u>(506)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>26,387</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Transfers in	<u>5,571</u>
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<u>5,571</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Acquisition of fixed assets	<u>-</u>
<b>NET CASH PROVIDED BY (USED IN) CAPITAL AND FINANCING ACTIVITIES</b>	<u>-</u>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	31,958
<b>CASH AND CASH EQUIVALENTS-BEGINNING OF YEAR</b>	<u>7,836</u>
<b>CASH AND CASH EQUIVALENTS-END OF YEAR</b>	<u><u>\$ 39,794</u></u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Operating loss	\$ (66,076)
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation	<u>92,463</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u><u>\$ 26,387</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, 2013</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, 2013</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, 2013</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 Community Development Block Grant, Municipal Road Aid, Rehabilitation, Fire and EMS, Acquisition, and the Neighborhood Stabilization Program.

*Proprietary Fund*

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

Cash and Cash Equivalents and Investments

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

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

Interest Rate Risk – In accordance with City policy, interest rate risk is limited by investing only in certificates of deposit with the highest rate of return and with the maximum security of principal. Investments are undertaken in a manner that seeks to ensure the preservation of capital in its portfolio. As of June 30, 2013, 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.

<b>CITY OF LUDLOW, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2013</b>
---

Capital Assets

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

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

The City has elected to capitalize assets with a cost of \$500 or more. Capital assets are depreciated using the straight-line method in the government-wide financial statements. 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, 2013, as reported in the government-wide financial statements, is \$56,798.

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, 2013 was \$1,091,166, of which \$79,755 is due within the next year.

<b>CITY OF LUDLOW, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2013</b>
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### Fund Equity

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

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

### Inter-Fund Receivables/Payables

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

### Inventories and Prepaid Items

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

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

### Use of Estimates

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

### Comparative Data

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



<p><b>CITY OF LUDLOW, KENTUCKY</b>  <b>NOTES TO FINANCIAL STATEMENTS</b>  <b>June 30, 2013</b></p>
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**NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

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

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

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

The following functions had expenditures in excess of legally adopted appropriations for the year ended June 30, 2013:

Budget Line	Budget	Actual	Variance
Capital improvements	\$ -	\$ 357,236	\$ 357,236

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

**NOTE C – DEPOSITS**

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

As of June 30, 2013, the City had cash and cash equivalents of \$280,555. All cash balances not covered by FDIC insurance are fully collateralized.

**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.

<b>CITY OF LUDLOW, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2013</b>
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**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, 2013:

	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013
Land (not depreciated)	\$ 1,066,000	\$ -	\$ -	\$ 1,066,000
Construction in progress	-	44,180	-	44,180
Assets held for sale (not depreciated)	595,341	133,890	(144,416)	584,815
Infrastructure	24,800,981	-	-	24,800,981
Buildings and equipment	2,496,433	-	-	2,496,433
Vehicles	1,503,462	357,236	(316,632)	1,544,066
Fixed Assets	<u>30,462,217</u>	<u>535,306</u>	<u>(461,048)</u>	<u>30,536,475</u>
Accumulated Depreciation	<u>(26,171,276)</u>	<u>(232,383)</u>	<u>306,788</u>	<u>(26,096,871)</u>
Net Fixed Assets	<u>\$ 4,290,941</u>	<u>\$ 302,923</u>	<u>\$ (154,260)</u>	<u>\$ 4,439,604</u>

The following is a summary of changes in capital assets for the City’s business-type activities in its Revolving Loan Fund for the year ended June 30, 2013:

	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2012
Equipment - Riverside Marketplace	\$ 462,315	\$ -	\$ -	\$ 462,315
Accumulated Depreciation	<u>(46,232)</u>	<u>(92,463)</u>	<u>-</u>	<u>(138,695)</u>
Net Fixed Assets	<u>\$ 416,083</u>	<u>\$ (92,463)</u>	<u>\$ -</u>	<u>\$ 323,620</u>

**NOTE F – OPERATING LEASE**

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

<b>CITY OF LUDLOW, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2013</b>
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Annual lease payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Payment
2014	\$ 20,118	\$ 4,014	\$ 24,132
2015	20,320	3,812	24,132
2016	20,525	3,607	24,132
2017	20,737	3,395	24,132
2018	20,939	3,193	24,132
2019	308,166	2,009	310,175
Total	<u>\$ 410,805</u>	<u>\$ 20,030</u>	<u>\$ 430,835</u>

**NOTE G – LONG-TERM DEBT**

Long-term debt consists of the following:

Fire Truck/Ambulance

The City executed a lease-purchase agreement on October 15, 1997 for an ambulance and fire truck capitalized at a cost of \$465,000. This secured lease was refinanced during March 2003 for a 2.68% interest rate. The original term of the lease-purchase agreement was 15 years. Final payment of this lease in the amount of \$19,859 was made during the fiscal year ended June 30, 2013.

Equipment Capital Leases – Farmers Bank and Capital Trust Company

On September 26, 2007, the City executed a five-year lease with Farmers Bank and Capital Trust Company for the purchase of two police vehicles at a total cost of \$42,565. This secured lease carries an interest rate of 5.94%. Final payment of this lease in the amount of \$9,551 was made during the fiscal year ended June 30, 2013.

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

Fiscal Year Ending June 30,	Principal	Interest	Payment
2014	<u>\$ 4,457</u>	<u>\$ 182</u>	<u>\$ 4,639</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 carried an interest rate of 4.41% and was to mature on December 1, 2014. Using the Bank of Kentucky line of credit the remaining principal balance on this lease was paid during the fiscal year ended June 30, 2013.

<b>CITY OF LUDLOW, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2013</b>
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Capital Lease – KLC Funding Trust

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

Fiscal Year Ending June 30,	Principal	Interest	Payment
2014	\$ 21,714	\$ 17,378	\$ 39,092
2015	21,462	15,873	37,335
2016	22,246	16,695	38,941
2017	23,159	15,954	39,113
2018	24,013	15,278	39,291
2019-2033	482,074	130,503	612,577
Total	<u>\$ 594,668</u>	<u>\$ 211,681</u>	<u>\$ 806,349</u>

Capital Lease – GE Capital Solutions

On September 15, 2010, the City executed a three-year lease with GE Capital Solutions for the purchase of Bobcat equipment at a cost of \$15,977. This secured lease carried no interest and was to mature on September 15, 2013. The balance of this lease was paid with the line of credit funds drawn from the Bank of Kentucky during fiscal year ended June 30, 2013.

Capital Lease – Lease One Magnolia

The City executed a 5-year lease with Lease One Magnolia LLC for the purchase of an administrative vehicle at a cost of \$24,605 in 2012. This secured lease carried an interest rate of 4.00% and was to mature on December 1, 2016. The entire principal amount of this lease was paid with the line of credit funds drawn from the Bank of Kentucky during fiscal year ended June 30, 2013.

Capital Lease – Lease One Magnolia

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

<b>CITY OF LUDLOW, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2013</b>
---

Annual lease payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Payment
2014	\$ 6,165	\$ 1,127	\$ 7,292
2015	6,793	856	7,649
2016	7,075	574	7,649
2017	7,369	280	7,649
Total	<u>\$ 27,402</u>	<u>\$ 2,837</u>	<u>\$ 30,239</u>

Capital Lease – Lease One Magnolia

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

Fiscal Year Ending June 30,	Principal	Interest	Payment
2014	\$ 27,205	\$ 5,679	\$ 32,884
2015	27,847	5,037	32,884
2016	29,055	3,829	32,884
2017	30,315	2,569	32,884
2018	31,629	1,257	32,886
Total	<u>\$ 146,051</u>	<u>\$ 18,371</u>	<u>\$ 164,422</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
2014	\$ 6,522	\$ 1,056	\$ 7,578
2015	6,433	1,145	7,578
2016	6,707	871	7,578
2017	6,994	584	7,578
2018	7,293	283	7,576
Total	<u>\$ 33,949</u>	<u>\$ 3,939</u>	<u>\$ 37,888</u>

<b>CITY OF LUDLOW, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2013</b>
---

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
2014	\$ 13,692	\$ 2,840	\$ 16,532
2015	14,289	2,243	16,532
2016	14,912	1,620	16,532
2017	15,562	970	16,532
2018	16,242	292	16,534
Total	<u>\$ 74,697</u>	<u>\$ 7,965</u>	<u>\$ 82,662</u>

Bank of Kentucky - Line of Credit

On November 16, 2012, the City executed a lease with the Bank of Kentucky, not to exceed \$900,000, to finance the acquisition, construction, installation and equipping of a new public works building and to refund the acquisition of certain vehicles and equipment. Interest rate on advances is 2.29% per annum and is payable on May 1 and November 1 each year. Final maturity is November 1, 2017. This line of credit is secured by the public works building. The City has no current portion of principal due on this line of credit at June 30, 2013. The following are the line of credit draws during the fiscal year ended June 30, 2013:

Draw #	Date	Amount
1	11/16/2012	\$ 50,000
2	11/26/2012	33,329
3	11/27/2012	83,868
4	11/28/2012	9,633
5	1/24/2013	4,068
6	2/12/2013	2,500
7	2/14/2013	5,972
8	3/27/2013	6,775
9	5/7/2013	7,125
10	5/20/2013	5,500
11	5/24/2013	900
12	5/30/2013	90
Total Lease Principal		<u>\$ 209,760</u>

<p><b>CITY OF LUDLOW, KENTUCKY</b>  <b>NOTES TO FINANCIAL STATEMENTS</b>  <b>June 30, 2013</b></p>
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**NOTE H – INDEBTEDNESS SUMMARY**

The changes in long-term indebtedness for 2013 are as follows:

	Balance June 30, 2012	Additions	Retirements	Balance June 30, 2013
Fifth Third Bank 1997 Capital Lease	\$ 19,859	\$ -	\$ (19,859)	\$ -
Farmers Bank & Trust Leases	36,779	-	(32,140)	4,639
GE Capital Solutions Lease	6,213	-	(6,213)	-
KLC Funding Trust Lease	614,610	-	(19,942)	594,668
Lease One Magnolia Lease	24,605	-	(24,605)	-
Lease One Magnolia Lease	-	34,957	(7,555)	27,402
Lease One Magnolia Lease	-	146,051	-	146,051
Lease One Magnolia Lease	-	33,949	-	33,949
Lease One Magnolia Lease	-	74,697	-	74,697
Lease One Magnolia Lease	-	51,850	(51,850)	-
Kubota Lease	-	11,995	(11,995)	-
Bank of Kentucky Lease	-	209,760	-	209,760
Total Debt	<u>702,066</u>	<u>\$ 563,259</u>	<u>\$ (174,159)</u>	<u>1,091,166</u>
Less: current portion of long-term debt	(71,574)			(79,755)
Total Long-Term Debt	<u>\$ 630,492</u>			<u>\$ 1,011,411</u>

**NOTE I – CONTINGENT LIABILITIES**

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

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

**NOTE J – EMPLOYEE RETIREMENT SYSTEMS**

*County Employees Retirement System (CERS)*

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

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

<b>CITY OF LUDLOW, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2013</b>
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Hazardous Contributions - For the year ended June 30, 2013, 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, 2013, participating employers contributed an actuarially determined rate set by the Board of 37.60% 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 19.55% of the non-hazardous duty employee's compensation during the year ended June 30, 2013.

For the year ended June 30, 2013, the City contributed \$231,911 to this plan.

#### **NOTE K – CLAIMS AND JUDGMENTS**

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

#### **NOTE L – RISK MANAGEMENT**

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

#### **NOTE M – ECONOMIC DEPENDENCY**

The City's general fund receives 24% of its revenues from insurance premium taxation. This tax is not regulated on a city level, but rather a state level. If legislation were imposed to delete this tax, the City would be negatively impacted.



<b>CITY OF LUDLOW, KENTUCKY</b> <b>NOTES TO FINANCIAL STATEMENTS</b> <b>June 30, 2013</b>
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**NOTE N – FEDERAL GRANT AWARDS**

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

<u>Program</u>	<u>Grant Period</u>	<u>Total Grant Awarded</u>	<u>Grant Funds Received 2013</u>
HUD Community Development Block Grant (Riverside Marketplace)	11/18/10-12/31/12	\$ 470,000	\$ 5,000
HUD Neighborhood Stabilization Program 1 Grant	12/4/09-6/1/13	835,998	<u>237,553</u>
			<u><u>\$ 242,553</u></u>

**NOTE O – SUBSEQUENT EVENTS**

The City's management has evaluated and considered the need to recognize or disclose subsequent events through April 7, 2014, 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, 2013, have not been evaluated by the City's management.

**CITY OF LUDLOW, KENTUCKY**  
**BUDGETARY COMPARISON SCHEDULE- BUDGET TO ACTUAL- GENERAL FUND, FIRE/EMS FUND, COMMUNITY DEVELOPMENT BLOCK GRANT FUND,**  
**AND MUNICIPAL ROAD AID FUND**  
**For the Year Ended June 30, 2013**

	Budgeted Amounts			General	Fire/EMS	Municipal Road Aid	Variance with Final Budget Favorable (Unfavorable)
	Original	Revisions	Final				
<b>Budgetary fund balance, July 1, 2012</b>	\$ 130,777	\$ -	\$ 130,777	\$ 130,777	\$ 1,571	\$ 230,555	\$ 232,126
<b>Resources (inflows)</b>							
General government revenue	2,086,686	96,866	2,183,552	2,184,827	-	-	1,275
Municipal road aid	85,500	15,332	100,832	-	-	115,380	14,548
Fire property assessment tax fund	352,000	1,705	353,705	-	353,705	-	-
Other fire revenue	133,700	12,417	146,117	-	150,930	-	4,813
Capital improvements fund	332,500	(332,500)	-	112,534	214,957	-	327,491
Prior year carryforward	-	534,125	534,125	-	-	-	(534,125)
Proceeds from loans	-	-	-	138,542	-	-	138,542
Transfers in	-	-	-	-	-	69,937	69,937
<b>Amounts available for appropriation</b>	<b>3,121,163</b>	<b>327,945</b>	<b>3,449,108</b>	<b>2,566,680</b>	<b>721,163</b>	<b>415,872</b>	<b>254,607</b>
<b>Charges to appropriations (outflows)</b>							
Legislative and administrative	965,991	114,279	1,080,270	1,060,070	-	-	20,200
Police	899,307	72,794	972,101	905,645	-	-	66,456
Public works	179,989	100,058	280,047	185,909	-	-	94,138
Capital improvements fund	332,500	(177,369)	155,131	42,597	-	-	112,534
Municipal road aid	85,500	52,911	138,411	-	-	138,411	-
Fire/EMS fund	500,257	61,158	561,415	-	542,488	-	18,927
Capital outlay	-	-	-	142,279	214,957	-	(357,236)
Debt Service	-	-	-	39,460	27,776	-	(67,236)
Transfers out	-	-	-	71,798	-	-	(71,798)
<b>Total charges to appropriations</b>	<b>2,963,544</b>	<b>223,831</b>	<b>3,187,375</b>	<b>2,447,758</b>	<b>785,221</b>	<b>138,411</b>	<b>(184,015)</b>
<b>Budgetary fund balance, June 30, 2013</b>	<b>\$ 157,619</b>	<b>\$ 104,114</b>	<b>\$ 261,733</b>	<b>\$ 118,922</b>	<b>\$ (64,058)</b>	<b>\$ 277,461</b>	<b>\$ 70,592</b>

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

**CITY OF LUDLOW, KENTUCKY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES - ALL SPECIAL REVENUE FUNDS**  
**For the Year Ended June 30, 2013**

	Rehabilitation Fund	Neighborhood Stabilization Program	Municipal Road Aid Fund	Fire and EMS	Community Development Block Grant	Acquisition Fund	Totals Memo Only	
							2013	2012
<b>REVENUES</b>								
NSP revenue	\$ -	\$ 138,103	\$ -	\$ -	\$ -	\$ -	\$ 138,103	\$ 237,553
Municipal road aid revenue	-	-	115,380	-	-	-	115,380	95,732
Fire and EMS revenue	-	-	-	497,524	-	-	497,524	734,929
CDBG revenue	-	-	-	-	5,000	-	5,000	462,317
<b>TOTAL REVENUES</b>	<b>-</b>	<b>138,103</b>	<b>115,380</b>	<b>497,524</b>	<b>5,000</b>	<b>-</b>	<b>756,007</b>	<b>1,530,531</b>
<b>EXPENDITURES</b>								
Current								
NSP expenditures	-	5,000	-	-	-	-	5,000	10,024
Municipal road aid expenditures	-	-	138,411	-	-	-	138,411	21,131
Fire and EMS expenditures	-	-	-	542,488	-	-	542,488	385,547
CDGB Grant	-	-	-	-	5,000	-	5,000	-
Acquisition expenditures	-	-	-	-	-	96	96	-
Capital outlay expenditures	-	133,890	-	214,957	-	44,180	393,027	577,559
Debt service expenditures	-	-	-	27,776	-	123,441	151,217	40,253
<b>TOTAL EXPENDITURES</b>	<b>-</b>	<b>138,890</b>	<b>138,411</b>	<b>785,221</b>	<b>5,000</b>	<b>167,717</b>	<b>1,235,239</b>	<b>1,034,514</b>
<b>EXCESS/(DEFICIT) OF REVENUES OVER/(UNDER)EXPENDITURES BEFORE OTHER SOURCES</b>	<b>-</b>	<b>(787)</b>	<b>(23,031)</b>	<b>(287,697)</b>	<b>-</b>	<b>(167,717)</b>	<b>(479,232)</b>	<b>496,017</b>
<b>OTHER FINANCING SOURCES (USES)</b>								
Transfers in	-	-	69,937	-	-	1,861	71,798	4,212
Transfers out	(5,571)	-	-	-	-	-	(5,571)	(468,828)
Proceeds from sale of assets	-	-	-	7,111	-	-	7,111	-
Proceeds from loans	-	-	-	214,957	-	209,760	424,717	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(5,571)</b>	<b>-</b>	<b>69,937</b>	<b>222,068</b>	<b>-</b>	<b>211,621</b>	<b>498,055</b>	<b>(464,616)</b>
<b>EXCESS/(DEFICIT) OF REVENUES OVER/(UNDER)EXPENDITURES</b>	<b>(5,571)</b>	<b>(787)</b>	<b>46,906</b>	<b>(65,629)</b>	<b>-</b>	<b>43,904</b>	<b>18,823</b>	<b>31,401</b>
<b>FUND BALANCES BEGINNING OF YEA</b>	<b>5,571</b>	<b>667</b>	<b>230,555</b>	<b>1,571</b>	<b>50</b>	<b>-</b>	<b>238,414</b>	<b>207,013</b>
<b>FUND BALANCES END OF YEAR</b>	<b>\$ -</b>	<b>\$ (120)</b>	<b>\$ 277,461</b>	<b>\$ (64,058)</b>	<b>\$ 50</b>	<b>\$ 43,904</b>	<b>\$ 257,237</b>	<b>\$ 238,414</b>



**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, 2013 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 April 7, 2014.

***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.  
Erlanger, Kentucky  
April 7, 2014