

CITY OF LUDLOW, KENTUCKY

FINANCIAL STATEMENTS

For the Year Ended June 30, 2017

<p>CITY OF LUDLOW, KENTUCKY</p> <p>FINANCIAL STATEMENTS</p> <p>For the Year Ended June 30, 2017</p>
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TABLE OF CONTENTS

	Pages
Introductory Section	
City Officials.....	1
Financial Section	
Independent Auditor's Report.....	2-4
Management's Discussion and Analysis.....	5-10
Basic Financial Statements	
Government Wide Financial Statements	
Statement of Net Position.....	11
Statement of Activities.....	12
Fund Financial Statements	
Balance Sheet - Governmental Funds.....	13
Statement of Revenues, Expenditures and Changes in Fund	
Balances - Governmental Funds.....	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in	
Fund Balances of Governmental Funds to the Statement of Activities.....	15
Statement of Net Position - Revolving Loan Fund.....	16
Statement of Revenues, Expenses, and Changes in Net Position	
Revolving Loan Fund.....	17
Statement of Cash Flows - Revolving Loan Fund.....	18
Notes to Financial Statements.....	19-36
Required Supplementary Information	
Budgetary Comparison Schedule - Budget to Actual - General Fund, Fire/EMS	
Fund, and Municipal Road Aid Fund.....	37
Multiple Employer, Cost Sharing, Defined Benefit Pension Plan.....	38-39
Supplementary Information	
Combining Balance Sheet - Special Revenue Funds.....	40
Combining Statement of Revenues, Expenditures and Changes	
in Fund Balances - Special Revenue Funds.....	41
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 <i>Government Auditing Standards</i>	42-43

CITY OF LUDLOW, KENTUCKY

CITY OFFICIALS

For the Year Ended June 30, 2017

Council Members

Kenneth Wynn, Mayor

Tom Amann

John Gaiser

Josh Boone

Matt Williams

Jordan Scheid

William Whiteley

City Management

Elishia Chamberlain, 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 of the
City of Ludlow, Kentucky**

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ludlow, Kentucky, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

-Management's Responsibility for the Financial Statements

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

-Auditor's Responsibility

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

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

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



-Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Ludlow, Kentucky as of June 30, 2017 and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

-Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 5 – 10, the budgetary comparison schedule on page 37 and the pension disclosure on pages 38-39 to be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

-Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The combining non-major special revenue funds schedules on pages 39-40 are supplementary information and are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.



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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2018 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
January 11, 2018

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
UNAUDITED**

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.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities (on pages 10 and 11) provide information about the activities of the City as a whole and present a fair view of the City's finances. Fund financial statements start on page 13. For government activities these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year are as follows:

- The ending cash balance for the City was \$123,612
- 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, and Fire and EMS. Capital assets are also supported by taxes and intergovernmental revenues. Municipal Aid is supported by designated support coming from the state.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The fund financial statements provide detailed information about the most significant funds – not the City as a whole. The City Council establishes funds to help control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City has three main set of funds – (1) the General Fund, (2) special revenue funds for the Municipal Aid and Acquisition Fund, 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

The statement of net position reports on the City as a whole. Table 1 provides a summary of the City's net position for 2017 compared to 2016.

Table 1 – Net Position of Governmental Activities

	Government-wide Activities	
	2017	2016
Current assets	\$ 475,609	\$ 648,356
Capital assets, net	3,876,591	3,893,415
Deferred outflows	787,309	437,801
Total assets and deferred outflows	<u>5,139,509</u>	<u>4,979,572</u>
Total liabilities	4,755,080	3,978,563
Deferred inflows	-	131,600
Total liabilities and deferred inflows	<u>4,755,080</u>	<u>4,110,163</u>
Invested in capital assets	2,293,558	2,233,657
Restricted	217,808	199,450
Unrestricted	<u>(2,126,937)</u>	<u>(1,563,698)</u>
Total net position	<u>\$ 384,429</u>	<u>\$ 869,409</u>

Net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets and deferred outflows exceeded liabilities and deferred inflows by \$384,429 as of June 30, 2017, a decrease of 55.8% from 2016.

The largest portion of the City's net position reflects its investment in capital assets (e.g. land and improvements, buildings and improvements, vehicles, furniture and equipment and infrastructure); less any related debt used to acquire those assets that are still outstanding. These assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

Equity in cash and decreased \$172,747 due to cash paid for the upcoming projects such as Riverfront Commons and Train Viewing Station. However total assets increased \$159,937 primarily due to the change in deferred outflows which is required reporting in connection with the City's GASB 68 pension liability recognition.

Table 2 reflects the change in net position.

Table 2 – Change in Net Position

	Governmental Activities	
	<u>2017</u>	<u>2016</u>
Revenues		
Charges for services	\$ 857,900	\$ 891,221
Operating grants and contributions	186,971	233,295
Capital grants and contributions	-	32,500
General Revenues		
Taxes	1,507,823	1,419,743
License and permit fees	542,773	563,239
Code Enforcement Board	54,587	111,712
Miscellaneous	29,410	14,474
Gain (loss) on disposal of assets	-	767
Unrestricted investment earnings	3	72
Total revenues:	<u>3,179,467</u>	<u>3,267,023</u>
Expenses		
Legislative and administrative	1,134,272	1,036,516
Fire and EMS expenses	677,924	626,187
Streets	117,936	156,979
Park department	12,941	9,666
Public safety	1,411,004	1,186,922
Public works	257,709	246,616
Interest on long-term debt	65,209	67,783
Total expenses:	<u>3,676,995</u>	<u>3,330,669</u>
Change in Net Position	<u>\$ (497,528)</u>	<u>\$ (63,646)</u>

Business-type Activities

The City established a proprietary fund during the year ended June 30, 2013 in order to maintain its Revolving Loan Fund. The basis of this fund was the receipt of community development block grant funds that were used to purchase equipment which would be leased from the City under an operating lease by a new business, the Riverside Marketplace. The City's ownership of this equipment is recognized on the Statement of Net Position within the Revolving Loan Fund.

Table 3 represents a summary of the City's business-type activity revenue and expenses for the fiscal years ended June 30, 2017 and 2016.

Table 3 – Change in Net Position

	Business-Type Activities	
	2017	2016
Revenues		
Charges for services	\$ 58,735	\$ 97,174
General Revenues		
Sales taxes	1,925	3,248
Total revenues:	<u>60,660</u>	<u>100,422</u>
Expenses		
Revolving loan fund	48,112	95,657
Total expenses:	<u>48,112</u>	<u>95,657</u>
Change in Net Position	<u>\$ 12,548</u>	<u>\$ 4,765</u>

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2017, the City had \$3,876,591 invested in capital assets (net of depreciation), all in governmental activities.

Table 4 reflects fiscal year 2017 balances compared to fiscal year 2016.

Table 4 – Capital Assets (Net of Depreciation)

	2017	2016
Land	\$ 1,066,000	\$ 1,066,000
Construction in progress	199,263	-
Buildings/Equipment	3,124,578	3,124,578
Infrastructure	24,800,981	24,800,981
Vehicles	<u>1,522,484</u>	<u>1,451,821</u>
Subtotal	30,713,306	30,443,380
Accumulated depreciation	<u>(26,836,715)</u>	<u>(26,596,196)</u>
Total assets, net	<u>\$ 3,876,591</u>	<u>\$ 3,847,184</u>

This year's net increase of \$269,926 in capital assets included:

Purchase of 2 police vehicles	\$ 70,663
Construction in progress for Riverfront Commons, Train Viewing Station	199,263
	<u>\$ 269,926</u>

Debt

The long term debt for the City at June 30, 2017 and 2016 is as follows:

	Governmental Activities			June 30, 2017
	June 30, 2016	Additions	Deletions	
KLC funding trust	\$ 543,327	\$ -	\$ (23,158)	\$ 520,169
Leases	201,848	70,663	(99,230)	173,281
2014B revenue bonds	914,583	-	(25,000)	889,583
Totals	<u>\$ 1,659,758</u>	<u>\$ 70,663</u>	<u>\$ (147,388)</u>	<u>\$ 1,583,033</u>

GASB 68 Pension Liability Recognition

As of June 30, 2017, the City recognized a net pension liability of \$2,824,654, based on a June 30, 2016 measurement date compared to \$2,169,214 in FY 2016. Detailed information on this liability, and its associated deferred outflows and inflows can be found in Note J to the financial statements.

Economic Factors and Next Year's Budget

The City continues to annually invest in its infrastructure of roads, parks and City properties. The inflationary rate increase in pensions, healthcare, and construction costs continues to be the dominant concern for budgeting forecasts but 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 Administrator at, the City of Ludlow, P.O. Box 16188, 51 Elm Street, Ludlow, Kentucky 41016.

CITY OF LUDLOW, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2017

	Primary Government		
	Governmental	Business-type	Total
Assets	Activities	Activities	Total
Cash and cash equivalents	\$ 64,489	\$ 59,123	\$ 123,612
Accounts receivable	152,734	199,263	351,997
Capital assets			
Land (not depreciated)	1,066,000	-	1,066,000
Property, plant and equipment, net of accumulated depreciation	2,810,591	-	2,810,591
Total Assets	4,093,814	258,386	4,352,200
Deferred Outflows of Resources			
Pension contribution for fiscal year 2016	787,309	-	787,309
Total Deferred Outflows of Resources	787,309	-	787,309
Total Assets and Deferred Outflows of Resources	4,881,123	258,386	5,139,509
Liabilities			
Accounts payable	248,860	157	249,017
Accrued payroll and payroll taxes	3,904	-	3,904
Long-term liabilities			
Compensated absences	94,472	-	94,472
Due within one year	141,000	-	141,000
Due in more than one year	1,442,033	-	1,442,033
Net pension liability	2,824,654	-	2,824,654
Total Liabilities	4,754,923	157	4,755,080
Deferred Inflows of Resources			
Deferred inflow of resources related to pensions	-	-	-
Total Liabilities and Deferred Inflows of Resources	4,754,923	157	4,755,080
Net Position			
Invested in capital assets	2,293,558	-	2,293,558
Restricted	(40,421)	258,229	217,808
Unrestricted	(2,126,937)	-	(2,126,937)
Total Net Position	\$ 126,200	\$ 258,229	\$ 384,429

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

CITY OF LUDLOW, KENTUCKY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary Government							
Governmental activities							
Legislative and administrative	\$1,147,213	\$ 352,180	\$ -	\$ -	\$ (795,033)	\$ -	\$ (795,033)
Public safety	1,411,004	55,795	82,142	-	(1,273,067)	-	(1,273,067)
Public works	257,709	-	2,280	-	(255,429)	-	(255,429)
Streets	117,936	-	88,549	-	(29,387)	-	(29,387)
Fire and EMS	677,924	449,925	14,000	-	(213,999)	-	(213,999)
Interest on long-term debt	65,209	-	-	-	(65,209)	-	(65,209)
Total governmental activities	3,676,995	857,900	186,971	-	(2,632,124)	-	(2,632,124)
Business-type activities							
Revolving loan fund	48,112	58,735	-	-	-	10,623	10,623
Total Primary Government	\$3,725,107	\$ 916,635	\$ 186,971	\$ -	(2,632,124)	10,623	(2,621,501)
General revenues							
Taxes							
Property taxes, levied for general purposes					790,752	-	790,752
Insurance premium taxes					565,812	-	565,812
Other taxes					151,259	-	151,259
Sales tax received					-	1,925	1,925
Licenses and permit fees							
Payroll/gross receipts license fees					348,972	-	348,972
Other licenses, fees & permits					193,801	-	193,801
Code enforcement/blight abatement					54,587	-	54,587
Investment earnings					3	-	3
Miscellaneous					29,410	-	29,410
Total general revenues					2,134,596	1,925	2,136,521
Change in net position					(497,528)	12,548	(484,980)
Net position, beginning					623,728	245,681	869,409
Net position, ending					\$ 126,200	\$ 258,229	\$ 384,429

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

CITY OF LUDLOW, KENTUCKY
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2017

	General Fund	Municipal Aid Road Fund	Special Revenue Funds	Total Governmental Funds 2017	Memo Only 2016
Assets					
Cash and cash equivalents	\$ 41,831	\$ 22,658	\$ -	\$ 64,489	\$ 296,209
Accounts receivable	32	-	-	32	19,502
Insurance tax receivable	152,702	-	-	152,702	132,561
Due from other funds	60,241	-	-	60,241	277,488
Total Assets	<u>\$ 254,806</u>	<u>\$ 22,658</u>	<u>\$ -</u>	<u>\$ 277,464</u>	<u>\$ 725,760</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 46,759	\$ 2,838	\$ 199,263	\$ 248,860	\$ 71,263
Accrued payroll and payroll taxes	3,904	-	-	3,904	4,825
Due to other funds	-	60,241	-	60,241	277,488
Total Liabilities	<u>50,663</u>	<u>63,079</u>	<u>199,263</u>	<u>313,005</u>	<u>353,576</u>
Fund Balances					
Reported in:					
General fund - unassigned	204,143	-	-	204,143	586,440
Municipal road aid fund - restricted	-	(40,421)	-	(40,421)	(67,470)
Fire and EMS fund - committed	-	-	-	-	(146,786)
Acquisition Fund - committed	-	-	(199,263)	(199,263)	-
Total Fund Balances	<u>204,143</u>	<u>(40,421)</u>	<u>(199,263)</u>	<u>(35,541)</u>	<u>372,184</u>
Total Liabilities and Fund Balances	<u>\$ 254,806</u>	<u>\$ 22,658</u>	<u>\$ -</u>	<u>\$ 277,464</u>	<u>\$ 725,760</u>
Total governmental fund balances				\$ (35,541)	
Amounts reported for governmental activities in the statement of net position are different because:					
Capital assets of \$30,443,380, net of accumulated depreciation of (\$26,596,196), used in governmental activities are not financial resources and, therefore, are not reported in the funds.					
				3,876,591	
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore are not reportable in the funds:					
Deferred outflow of resources				-	
Deferred outflow of resources				-	
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.					
Capital leases				-	
Compensated absences				(94,472)	
Notes payable				(1,583,033)	
Net pension liability				(2,824,654)	
Net position of governmental activities				<u>\$ (661,109)</u>	

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

CITY OF LUDLOW, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2017

	Governmental Fund Types			Totals	
	General	Municipal Aid Road Fund	Special Revenue	2017	Memo Only 2016
Revenues					
General fund revenue	\$ 2,626,995	\$ -	\$ -	\$ 2,626,995	\$ 2,625,192
Municipal road aid fund revenue	-	88,549	-	88,549	134,732
Fire and EMS revenue	463,926	-	-	463,926	507,099
Total Revenues	3,090,921	88,549	-	3,179,470	3,267,023
Expenditures					
Current					
Administrative expenditures	1,077,680	-	-	1,077,680	992,424
Police department expenditures	1,250,770	-	-	1,250,770	1,152,153
Public works expenditures	203,399	-	-	203,399	210,221
Park department expenditures	12,941	-	-	12,941	9,666
Municipal aid expenditures	-	61,500	-	61,500	100,543
Fire and EMS expenditures	569,045	-	-	569,045	544,897
Capital outlay	70,663	-	199,263	269,926	61,990
Debt service					
Principal	147,388	-	-	147,388	278,387
Interest	65,209	-	-	65,209	67,783
Total Expenditures	3,397,095	61,500	199,263	3,657,858	3,418,064
Excess (Deficit) of Revenues Over (Under) Expenditures	(306,174)	27,049	(199,263)	(478,388)	(151,041)
Other Financing Sources (Uses)					
Transfers in	-	-	146,786	146,786	4,614
Transfers out	(146,786)	-	-	(146,786)	(4,614)
Loan proceeds	70,663	-	-	70,663	211,990
Proceeds from disposal of property	-	-	-	-	-
Total Other Financing Sources (Uses)	(76,123)	-	146,786	70,663	211,990
Excess (Deficit) of Revenues and Other Sources Over (Under) Expenditures	(382,297)	27,049	(52,477)	(407,725)	60,949
Fund Balance, Beginning of Year	586,440	(67,470)	(146,786)	372,184	311,235
Fund Balance, End of Year	\$ 204,143	\$ (40,421)	\$ (199,263)	\$ (35,541)	\$ 372,184

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, 2017</p>
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Net change in fund balances - total governmental funds \$ (407,725)

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

Governmental funds report capital outlays as expenditures.

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

Capital asset purchases capitalized	269,926
Depreciation expense	(240,519)

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

Costs of benefits earned	(174,332)
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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 position.	147,388
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The proceeds of loans and leases increase revenue in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position	(70,663)
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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	(21,603)
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Change in net position of governmental activities **\$ (497,528)**

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

CITY OF LUDLOW, KENTUCKY STATEMENT OF NET POSITION - REVOLVING LOAN FUND June 30, 2017

Assets

Current Assets

Cash and cash equivalents	\$ 59,123
Accounts Receivable	199,263
Total Current Assets	<u>258,386</u>

Total Assets

258,386

Liabilities

Accounts payable

157

Net Position

Restricted

258,229

Total Net Position

\$ 258,229

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

<p>CITY OF LUDLOW, KENTUCKY STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - REVOLVING LOAN FUND For the Year Ended June 30, 2017</p>
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Operating Revenues

Lease principal income	\$ 55,743
Lease interest income	2,992
Sales tax collected	<u>1,925</u>

Total Operating Revenues	<u>60,660</u>
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Operating Expenses

Administrative Fees	-
Depreciation expense	46,231
Sales tax remitted	<u>1,881</u>

Total Operating Expenses	<u>48,112</u>
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Operating Income	12,548
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Transfer In, Net	<u>-</u>
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Change in Net Position	12,548
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Net Position, July 1	<u>245,681</u>
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Net Position, June 30	<u><u>\$ 258,229</u></u>
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The accompanying notes are an integral part of the financial statements.

CITY OF LUDLOW, KENTUCKY STATEMENT OF CASH FLOWS - REVOLVING LOAN FUND For the Year Ended June 30, 2017
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Cash Flows from Operating Activities	
Received from customers	\$ 60,660
Paid to suppliers for goods and services	<u>(2,358)</u>
Net Cash Provided by Operating Activities	<u>58,302</u>
Cash Flows from Non-Capital Financing Activities	
Purchases on behalf of City of Ludlow	<u>(199,263)</u>
Net Cash Provided by Non-Capital Financing Activities	<u>(199,263)</u>
Cash Flows from Capital and Related Financing Activities	
Acquisition of fixed assets	<u>-</u>
Net Cash Provided by Capital and Financing Activities	<u>-</u>
Increase in Cash and Cash Equivalents	(140,961)
Cash and Cash Equivalents, Beginning of Year	<u>200,084</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 59,123</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	\$ 12,548
Adjustments to reconcile net income to net cash provided by operating activities	
Decrease in accounts payable	(477)
Depreciation	<u>46,231</u>
Net Cash Provided by Operating Activities	<u><u>\$ 58,302</u></u>

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

CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2017

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.

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

CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2017

Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The City's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only in the year when payment is due.

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

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

Fund Types

The City reports the following governmental funds:

General Fund

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

Special Revenue Funds

These funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specific purposes. Currently, the City maintains special revenue funds for its Municipal Road Aid and Acquisition funds.

CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2017

Proprietary Fund

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

Cash and Cash Equivalents and Investments

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

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

Interest Rate Risk – In accordance with City policy, interest rate risk is limited by investing only in certificates of deposit with the highest rate of return and with the maximum security of principal. Investments are undertaken in a manner that seeks to ensure the preservation of capital in its portfolio. As of June 30, 2017, the City has no investments.

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

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

Capital Assets

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

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

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

CITY OF LUDLOW, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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, 2017, as reported in the government-wide financial statements, is \$94,472.

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, 2017 was \$1,583,033 of which \$141,000 is due within the next year.

Fund Equity

Net position is the difference between assets and liabilities. Net position invested in capital assets, net of related debt, are capital assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction or improvement of those assets. In the governmental fund financial statements, fund balances have different classifications based upon their purposes, under GASB 54. The fund balance of the general fund is classified as *unassigned*, which represents funds not classified as non-spendable, committed, restricted, or assigned. The fund balances of the municipal road aid fund which is a special revenue funds, is classified as *restricted*, as funds are externally restricted by the agency providing funding. The fund balances of the acquisition fund and other special revenue funds, when applicable, 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.

<p>CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2017</p>
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Prepaid items record payments to vendors that benefit future reporting periods. Both inventories and prepaid items are similarly reported in government-wide and fund financial statements.

Use of Estimates

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

Comparative Data

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

NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

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

Expenditures may not legally exceed budgeted appropriations at the function level. Any revisions to the budget that would alter total revenues and expenditures of any fund must be approved by the council. The following functions had expenditures in excess of legally adopted appropriations for the year ended June 30, 2017:

<u>Budget Line</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Police	\$ 1,176,755	\$ 1,366,868	\$ (190,113)
Public works	\$ 273,016	\$ 278,672	\$ (5,656)

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.

CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2017

As of June 30, 2017, the City had cash and cash equivalents of \$123,612. Cash balances are covered by FDIC insurance.

NOTE D – RECEIVABLES

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

NOTE E – CAPITAL ASSETS AND DEPRECIATION

The following is a summary of changes in capital assets for the City’s governmental activities for the year ended June 30, 2017:

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
Land (not depreciated)	\$ 1,066,000	\$ -	\$ -	\$ 1,066,000
Construction in progress	-	199,263	-	199,263
Infrastructure	24,800,981	-	-	24,800,981
Buildings and equipment	3,124,578	-	-	3,124,578
Vehicles	1,451,821	70,663	-	1,522,484
Fixed Assets	30,443,380	269,926	-	30,713,306
Accumulated Depreciation	(26,596,196)	(240,519)	-	(26,836,715)
Net Fixed Assets	<u>\$ 3,847,184</u>	<u>\$ 29,407</u>	<u>\$ -</u>	<u>\$ 3,876,591</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, 2017:

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
Equipment - Riverside Marketplace	\$ 462,315	\$ -	\$ -	\$ 462,315
Accumulated Depreciation	(416,084)	(46,231)	-	(462,315)
Net Fixed Assets	<u>\$ 46,231</u>	<u>\$ (46,231)</u>	<u>\$ -</u>	<u>\$ -</u>

F – OPERATING LEASE

On April 8, 2011, the City entered into an operating lease agreement with the owner the Riverside Marketplace, where the owner will lease equipment owned by the City. Lease receipts by the City will be used to develop its Revolving Loan Fund in order to assist other local businesses. The term of the lease is 7 years, and first payment on the lease was made on January 1, 2012. The annual interest rate on the lease is 1.00%. Riverside Marketplace has the option to purchase the leased equipment at the end of the lease term, which is January 1, 2019, with an additional payment. This option, however, does not meet the requirements of treating the lease as a capital lease. Riverside Marketplace made additional principal payments in fiscal year ending June 30, 2017.

<p>CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2017</p>
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Future annual lease payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Payment
2018	\$ 23,042	\$ 1,093	\$ 24,135
2019	155,854	614	156,468
Total	<u>\$ 178,896</u>	<u>\$ 1,707</u>	<u>\$ 180,603</u>

NOTE G – LONG-TERM DEBT

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

Capital Lease – KLC Funding Trust

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

Ending June 30,	Principal	Interest	Payment
2018	\$ 24,013	\$ 19,765	\$ 43,778
2019	24,933	18,845	43,778
2020	25,855	17,923	43,778
2021	26,895	16,883	43,778
2022	27,897	15,881	43,778
2021-2027	156,315	62,575	218,890
2028-2032	188,536	30,354	218,890
2033	45,725	1,702	47,427
Total	<u>\$ 520,169</u>	<u>\$ 183,928</u>	<u>\$ 704,097</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
2018	\$ 32,194	\$ 690	\$ 32,884
Total	<u>\$ 32,194</u>	<u>\$ 690</u>	<u>\$ 32,884</u>

Capital Lease – Lease One Magnolia

<p>CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2017</p>
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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
2018	\$ 7,421	\$ 157	\$ 7,578
Total	<u>\$ 7,421</u>	<u>\$ 157</u>	<u>\$ 7,578</u>

Capital Lease – Lease One Magnolia

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

Annual lease payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Payment
2018	\$ 16,183	\$ 349	\$ 16,532
Total	<u>\$ 16,183</u>	<u>\$ 349</u>	<u>\$ 16,532</u>

Capital Lease – Lease One Magnolia

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

Annual lease payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Payment
2018	\$ 12,141	\$ 1,281	\$ 13,422
2019	12,622	800	13,422
2020	13,123	299	13,422
Total	<u>\$ 37,886</u>	<u>\$ 2,380</u>	<u>\$ 40,266</u>

Capital Lease - First Government Lease Company

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

CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2017

Annual lease payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Payment
2018	\$ 6,903	\$ 502	\$ 7,405
Total	<u>\$ 6,903</u>	<u>\$ 502</u>	<u>\$ 7,405</u>

Capital Lease - First Government Lease Company

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

Annual lease payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Payment
2018	\$ 5,285	\$ 1,714	\$ 6,999
2019	5,803	1,196	6,999
2020	6,373	626	6,999
Total	<u>\$ 17,461</u>	<u>\$ 3,536</u>	<u>\$ 20,997</u>

Capital Lease - First Government Lease Company

The City executed a lease on August 8, 2016 with First Government Lease Company for the purchase of two 2017 police vehicles capitalized at a cost of \$70,663. This lease is secured by the vehicles and requires an annual payment of \$17,517 each December 1st. Final payment will be December 2020.

Annual lease payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Payment
2018	\$ 11,858	\$ 5,659	\$ 17,517
2019	13,072	4,445	17,517
2020	14,412	3,105	17,517
2021	15,887	1,630	17,517
Total	<u>\$ 55,229</u>	<u>\$ 14,839</u>	<u>\$ 70,068</u>

Kentucky Bond Corporation – Lease Agreement

On May 2, 2014, The City entered into a lease agreement with the Kentucky Bond Corporation (KBC) in the amount of \$965,000. Concurrent with this lease agreement, KBC issued Financing Program Revenue Bonds, 2014 Series B which repaid the City's Bank of Kentucky line of credit. The lease agreement with the Kentucky Bond Corporation specifies monthly principal, interest

CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2017

and expense requirement payments in the amount in effect on the first day of each fiscal year as stated in the agreement.

The debt service is as follows:

Ending June 30,	Interest Rate	Principal	Interest	Total Debt Service
2018	3.300%	\$ 25,000	\$ 32,616	\$ 57,616
2019	4.300%	25,000	32,053	57,053
2020	4.300%	25,000	31,491	56,491
2021	4.300%	27,083	30,824	57,907
2022	4.300%	30,000	29,944	59,944
2023-2027	4.300%	157,083	135,027	292,110
2028-2032	4.800%	189,167	106,468	295,635
2033-2037	4.800%	239,166	67,350	306,516
2038-2041	4.800%	172,084	16,991	189,075
Total		<u>\$ 889,583</u>	<u>\$ 482,764</u>	<u>\$ 1,372,347</u>

NOTE H – INDEBTEDNESS SUMMARY

The changes in long-term indebtedness for 2017 are as follows:

	Balance June 30, 2016	Additions	Retirements	Balance June 30, 2017
First Government Lease Company	\$ 13,261	\$ -	\$ (6,358)	\$ 6,903
First Government Lease Company	22,273	-	(4,812)	17,461
First Government Lease Company	-	70,663	(15,434)	55,229
KLC Funding Trust Lease	543,327	-	(23,158)	520,169
Lease One Magnolia Lease	7,472	-	(7,472)	-
Lease One Magnolia Lease	63,049	-	(30,855)	32,194
Lease One Magnolia Lease	14,538	-	(7,114)	7,424
Lease One Magnolia Lease	31,691	-	(15,507)	16,184
Lease One Magnolia Lease	49,564	-	(11,678)	37,886
2014B Revenue Bonds	914,583	-	(25,000)	889,583
Total Debt	<u>\$ 1,659,758</u>	<u>\$ 70,663</u>	<u>\$ (147,388)</u>	<u>1,583,033</u>
Less: current portion of long-term debt	<u>(133,260)</u>			<u>(141,000)</u>
Total Long-Term Debt	<u>\$ 1,526,498</u>			<u>\$ 1,442,033</u>

NOTE I – CONTINGENT LIABILITIES

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

NOTE J – COUNTY EMPLOYEES' RETIREMENT SYSTEMS

The City's eligible employees are covered by the County Employees Retirement System (Plan)

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

<p>CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2017</p>
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Plan description - Employees are covered by CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System (KRS), an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute Section 61.645, the Board of Trustees of the Kentucky Retirement administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

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

Non-Hazardous duty employees:

Tier 1	Participation date	Before September 1, 2008
	Unreduced Retirement	27 years service or 65 years old
	Reduced Retirement	At least 5 years service and 55 years old
		At least 25 years service and any age
Tier 2	Participation Date	September 1, 2008 - December 31, 2013
	Unreduced Retirement	At least 5 years service and 65 years old
		Or age 57+ and sum of service years plus age equal 87
		At least 10 years service and 60 years old
Tier 3	Participation Date	After December 31, 2013
	Unreduced Retirement	At least 5 years service and 65 years old
		Or age 57+ and sum of service years plus age equal 87
	Reduced Retirement	Not available

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

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

	Required Contribution
Tier 1	5%
Tier 2	5% + 1% for insurance
Tier 3	5% + 1% for insurance

<p>CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2017</p>
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Hazardous duty employees:

Tier 1	Participation date	Before September 1, 2008
	Unreduced Retirement	At least one month of hazardous duty service credit or 55 years old
	Reduced Retirement	15 years service and 50 years old or any age with 20 years service
Tier 2	Participation Date	September 1, 2008 - December 31, 2013
	Unreduced Retirement	At least 5 years of hazardous duty service credit and 60 years old
	Reduced Retirement	15 years service and 50 years old or any age with 25 years service
Tier 3	Participation Date	On or after January 1, 2014
	Unreduced Retirement	At least 5 years of hazardous duty service credit and 60 years old or 25 or more years of service, with no age requirement
	Reduced Retirement	Not available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement for a hazardous duty employee is based on a factor of the number of years of service and hire date multiplied by the average of the highest three years' earnings. Reduced benefits are based on factors of both of these components. Participating hazardous duty employees become eligible to receive the health insurance benefit after at least 180 months or service. Death benefits are provided for both death after retirement and death prior to retirement. For hazardous duty members whose participation began before 1/1/2014 and have suffered a non-duty related death, death benefits are provided for any age in active employment with five years of service, or any age and not in active employment with at least 12 years of service. For hazardous duty members whose participation began on or after 1/1/2014, five years of service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. Death benefits after retirement are \$5,000 in lump sum. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate or pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years (waived if in the line of duty) of service is required for nonservice-related disability benefits.

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

	<u>Required Contribution</u>
Tier 1	8%
Tier 2	8% + 1% for insurance
Tier 3	8% + 1% for insurance

Contributions

For non-hazardous duty employees, the City contributed 18.68%, of which 13.95% was for the pension fund and 4.73% was for the health insurance fund, of the non-hazardous duty employee's compensation during the fiscal year ended June 30, 2017. For hazardous duty employees, the City contributed 31.06%, of which 21.71% was for the pension fund and 9.35% was for the health

CITY OF LUDLOW, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

insurance fund, of the hazardous duty employee's compensation during the fiscal year ended June 30, 2017.

The City made all required contributions for the non-hazardous Plan pension obligation for the fiscal year ended June 30, 2017 in the amount of \$86,844 of which \$64,854 was for the pension fund and \$21,990 was for the health insurance fund. The City also made all required contributions for the hazardous Plan pension obligation for the fiscal year ended June 30, 2017 in the amount of \$243,719, of which \$170,352 was for the pension fund and \$73,367 was for the health insurance fund.

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

At June 30, 2017, the City reported a liability of \$2,824,654 (\$935,344 – non-hazardous and \$1,889,310 – hazardous) as its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2016, the City's non-hazardous employer allocation proportion was 0.01900% of the total CERS non-hazardous duty employees and 0.11010% of the total CERS hazardous duty employees. For the year ended June 30, 2017, the City recognized pension expense of \$169,428.

In FY 2017, \$787,309 was recognized as a net deferred outflow of resources resulting from a) actuarial losses, b) difference between projected and actual earnings, c) changes in assumptions, and d) changes in proportion e) contributions subsequent to the measurement date. \$0 was recognized as a net deferred inflow of resources resulting from changes in proportion deferred inflows of resources.

CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2017

At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Non-Hazardous		Hazardous		Total	
	Deferred Outflow	Deferred Inflow	Deferred Outflow	Deferred Inflow	Deferred Outflow	Deferred Inflow
Differences between expected and actual experience	\$ 4,083	\$ -	\$ 27,249	\$ -	\$ 31,332	\$ -
Net difference between projected and actual earnings on plan investments	87,932	-	159,380	-	247,312	-
Change of assumptions	49,550	-	108,417	-	157,967	-
Changes in proportion and differences between contributions and proportionate share of contributions	9,805	-	105,687	-	115,492	-
Contributions subsequent to the measurement date	64,854	-	170,352	-	235,206	-
Total	\$ 216,224	\$ -	\$ 571,085	\$ -	\$ 787,309	\$ -

The City's contributions subsequent to the measurement date of \$787,309 will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30,	Net Deferral
2018	\$ 163,901
2019	146,497
2020	172,464
2021	69,241
	\$ 552,103

Actuarial Methods and Assumptions

The total pension liability for KRS was determined by applying procedures to the actuarial valuation as of June 30, 2016. The financial reporting actuarial valuation as of June 30, 2016 used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal

<p>CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2017</p>
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Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	27 years
Asset Valuation Method	5-year smoothed market
Inflation	3.25%
Salary Increase	4.0%, average, including inflation
Investment Rate of Return	7.5% for all but 6.75% for KERS (Non-Hazardous), net of pension plan investment expense, including inflation

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

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated December 3, 2015. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

Changes of Assumptions

The demographic and economic assumptions that affect the measurement of the total pension liability were updated as follows for the 2015 measurement date year:

- The assumed investment rate of return was decreased from 7.75% to 7.5%.
- The assumed rate of inflation was reduced from 3.5% to 3.25%.
- The assumed rate of wage inflation was reduced from 1.00% to 0.75%.
- Payroll growth assumption was reduced from 4.50% to 4.00%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set-back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of Retirement, Withdrawal and Disability were updated to more

CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2017

accurately reflect experience.

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

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

Discount Rate

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

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

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

	Discount Rate	City's Proportionate Share of Net Pension Liability		
		Non-Hazardous	Hazardous	Total
1% decrease	6.5%	\$ 1,165,590	\$ 2,373,524	\$ 3,539,114
Current discount rate	7.5%	935,344	1,889,310	2,824,654
1% increase	8.5%	737,977	1,489,917	2,227,894

Plan Fiduciary Net Position

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

NOTE K – CLAIMS AND JUDGMENTS

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

NOTE L – RISK MANAGEMENT

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

NOTE M – ECONOMIC DEPENDENCY

The City's general fund receives 16% of its revenues from insurance premium taxation. This tax is not regulated on a city level, but rather a state level. If legislation were imposed to delete this tax, the City would be negatively impacted.

NOTE N – IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

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

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

Statement No. 77 – *Tax Abatement Disclosures*

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

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

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

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

NOTE O – FUTURE ACCOUNTING STANDARDS

Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions – Implementation in FY 2018*

Statement No. 81 – *Irrevocable Split-Interest Agreements – Implementation in FY 2018*

CITY OF LUDLOW, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Statement No. 83 – *Certain Asset Retirement Obligations* – Implementation in FY 2019

Statement No. 84 – *Fiduciary Activities* – Implementation in FY 2020

Statement No. 85 – *Omnibus 2017* – Implementation in FY 2018

Statement No. 86 – *Certain Debt Extinguishment Issues* – Implementation in FY 2018

Statement No. 87 – *Leases* – Implementation in FY 2021

NOTE P – SUBSEQUENT EVENTS

The City's management has evaluated and considered the need to recognize or disclose subsequent events through January 11, 2018, which represents the date that these financial statements were available to be issued. On July 27, 2017 the City borrowed \$500,000 from Branch Banking & Trust to finance the acquisition, construction, installation and equipping of a municipal lot and rail viewing station.

CITY OF LUDLOW, KENTUCKY

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

For the Year Ended June 30, 2017

	Budgeted Amounts			General	Fire/EMS	Municipal Road Aid	Variance with Final Budget Favorable (Unfavorable)
	Original	Revisions	Final				
Budgetary fund balance, July 1, 2016	\$ 50,000	\$ -	\$ 50,000	\$ 586,440	\$ (146,786)	\$ (67,470)	\$ 322,184
Resources (inflows)							
General government revenue	3,030,295	-	3,030,295	2,626,995	-	-	(403,300)
Municipal road aid	132,200	-	132,200	-	-	88,549	(43,651)
Fire property assessment tax/Misc.	508,450	-	508,450	463,926	-	-	(44,524)
Capital improvements fund	15,000	-	15,000	-	-	-	(15,000)
Proceeds from loans	-	-	-	70,663	-	-	70,663
Economic Development	317,100	-	317,100	-	-	-	(317,100)
Transfers in	-	-	-	-	146,786	-	146,786
Amounts available for appropriation	4,053,045	-	4,053,045	3,748,024	-	21,079	(283,942)
Charges to appropriations (outflows)							
Legislative and administrative	1,309,220	-	1,309,220	1,121,458	-	-	187,762
Police	1,176,755	-	1,176,755	1,366,868	-	-	(190,113)
Public works	273,016	-	273,016	278,672	-	-	(5,656)
Parks and Misc Capital Improvements	27,900	-	27,900	12,941	-	-	14,959
Municipal road aid	75,000	-	75,000	-	-	61,500	13,500
Fire/EMS fund	639,077	-	639,077	617,156	-	-	21,921
EDA Earmark/Incentive	317,100	-	317,100	-	-	-	317,100
Transfers out	-	-	-	146,786	-	-	(146,786)
Total charges to appropriations	3,818,068	-	3,818,068	3,543,881	-	61,500	212,687
Budgetary fund balance, June 30, 2017	\$ 234,977	\$ -	\$ 234,977	\$ 204,143	\$ -	\$ (40,421)	\$ (71,255)

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

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Proportion of net pension liability	0.01900%	0.17676%	0.019326%							
Proportionate share of the net pension liability (asset)	\$ 935,344	\$ 759,995	\$ 626,994							
Covered employee payroll in year of measurement	316,828	329,233	391,929							
Share of the net pension liability (asset) as a percentage of its covered employee payroll	295.22%	230.84%	159.98%							
Plan fiduciary net position as a percentage of total pension liability	55.50%	59.97%	66.80%							

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

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually required contribution	\$ 86,881	\$ 39,350	\$ 41,976	\$ 53,851						
Actual contribution	86,881	39,350	41,976	53,851						
Contribution deficiency (excess)	-	-	-	-						
Covered employee payroll	622,803	316,828	329,233	391,929						
Contributions as a percentage of covered employee payroll	13.95%	12.42%	12.75%	13.74%						

**Notes to Required Supplementary Information
for the Year Ended June 30, 2017
Changes of Assumptions**

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

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

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Proportion of net pension liability	0.110100%	0.091799%	0.100286%							
Proportionate share of the net pension liability (asset)	\$ 1,889,310	\$ 1,409,219	\$ 1,205,257							
Covered employee payroll in year of measurement	703,574	497,525	577,923							
Share of the net pension liability (asset) as a percentage of its covered employee payroll	268.53%	283.25%	208.55%							
Plan fiduciary net position as a percentage of total pension liability	53.95%	57.52%	63.46%							

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

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually required contributor	\$ 134,481	\$ 142,544	\$ 114,182	\$ 125,814						
Actual contribution	134,481	142,544	114,182	125,814						
Contribution deficiency (excess)	-	-	-	-						
Covered employee payroll	619,443	703,574	497,525	577,923						
Contributions as a percentage of covered employee payroll	21.71%	20.26%	22.95%	21.77%						

**Notes to Required Supplementary Information
for the Year Ended June 30, 2017
Changes of Assumptions**

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

CITY OF LUDLOW, KENTUCKY COMBINING BALANCE SHEET - SPECIAL REVENUE FUNDS June 30, 2017

	<u>Fire and EMS</u>	<u>Acquisition Fund</u>	<u>Total Special Revenue Funds</u>
Assets			
Cash and cash equivalents	\$ -	\$ -	\$ -
Accounts receivable	-	-	-
Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ -	\$ 199,263	\$ 199,263
Due to General Fund	-	-	-
Total Liabilities	<u>-</u>	<u>199,263</u>	<u>199,263</u>
Fund Balances			
Committed	-	(199,263)	(199,263)
Total Fund Balances	<u>-</u>	<u>(199,263)</u>	<u>(199,263)</u>
Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ (199,263)</u>	<u>\$ -</u>

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

CITY OF LUDLOW, KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - SPECIAL REVENUE FUNDS
For the Year Ended June 30, 2017

	<u>Fire and EMS</u>	<u>Acquisition Fund</u>	<u>Totals 2017</u>
Revenues			
Acquisition Fund	\$ -	\$ -	\$ -
Fire and EMS revenue	-	-	-
Total Revenues	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures			
Current			
NSP expenditures	-	-	-
Fire and EMS expenditures	-	-	-
Acquisition expenditures	-	199,263	199,263
Capital outlay expenditures	-	-	-
Debt service expenditures	-	-	-
Total Expenditures	<u>-</u>	<u>199,263</u>	<u>199,263</u>
Excess (Deficit) of Revenues Over (Under) Expenditures Before Other Sources	<u>-</u>	<u>(199,263)</u>	<u>(199,263)</u>
Other Financing Sources (Uses)			
Transfers in	146,786	-	146,786
Transfers out	-	-	-
Proceeds from loans	-	-	-
Total Other Financing Sources (Uses)	<u>146,786</u>	<u>-</u>	<u>146,786</u>
Excess (Deficit) of Revenues Over (Under) Expenditures	146,786	(199,263)	(52,477)
Fund Balances, Beginning of Year	<u>(146,786)</u>	<u>-</u>	<u>(146,786)</u>
Fund Balances, End of Year	<u>\$ -</u>	<u>\$ (199,263)</u>	<u>\$ (199,263)</u>

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, 2017 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 January 11, 2018.

Internal Control over Financial Reporting

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

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

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



Compliance and Other Matters

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

Purpose of this Report

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

Van Gorder, Walker + Co., Inc.

Van Gorder, Walker, & Co., Inc.
Erlanger, Kentucky
January 11, 2018