

CITY OF LUDLOW, KENTUCKY

FINANCIAL STATEMENTS

For the Year Ended June 30, 2018

CITY OF LUDLOW, KENTUCKY

FINANCIAL STATEMENTS

For the Year Ended June 30, 2018

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CITY OF LUDLOW, KENTUCKY

CITY OFFICIALS

For the Year Ended June 30, 2018

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



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

INDEPENDENT AUDITOR'S REPORT

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

**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, 2018, 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, 2018 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.

Emphasis of a Matter – Implementation of New GASB Accounting Standard

As discussed in Note J to the financial statements, effective July 1, 2017, the City adopted Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB). Our opinion is not modified with respect to this matter.

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 schedules on pages 43-44 and the pension and OPEB disclosures on pages 45-48 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 schedule on page 49 is 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 May 6, 2019 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
May 6, 2019

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
UNAUDITED**

Our discussion and analysis of the City of Ludlow's financial performance for the fiscal year ended June 30, 2018, is intended to compliment the formal financial statements that begin on page 11. The formal financial statements, upon which the audit firm renders their opinion, can be fairly complex. The Auditors notes, which are in the last section of the report, must also comply with structured professional standards and can be difficult for a non-accounting professional to understand. This "management's discussion" portion is intended to assist our citizens and other stakeholders in gaining a clearer understanding of the information in the Annual Financial Reports.

OVERVIEW OF THIS ANNUAL REPORT

This Annual Report consists of:

1. The Audit Opinion, pages 2-4.
2. This section, Management's Discussion and Analysis.
3. Formal financial statements and supporting schedules, pages 11 thru 18.
4. Notes and supplementary information.
5. Compliance and other matters.

The City's financial statements are presented in two formats, each with a different perspective of the City's finances. Government-wide statements present the finances of the City as one complete entity, while the Fund financial statements attempt to isolate various departments or activities within the City's structure and provide greater detail. Both approaches are useful in understanding the City's financial structure.

Government – Wide Financial Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. These statements include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenditures are taken into account regardless of when cash is received or paid.

Government-wide financial statements provide us with the total net position of the City and the changes in them from prior periods. One can think of the City's net position—the difference between assets and liabilities—in the same way as one would calculate their personal net worth. The year-end net position of the city, its equity, can be compared to prior years to determine if the City's equity is growing or shrinking. This is an important measurement of how the City is doing financial wise. Of course, the financial results of any entity must be evaluated in conjunction with the local economic environment and a host of non-financial factors such as, population growth, infrastructure asset condition, new or changed government legislation, and the types and levels of services to be provided.

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.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

For the year ended June 30, 2018, net position changed as follows:

Beginning net position	\$	384,429
Change in net positon		(713,754)
Prior Period Adjustment		(839,425)
Ending net position	\$	<u>(1,168,750)</u>

Net Position of Primary Government

	Governmental Activities		Business-type Activities	
	2018	2017	2018	2017
Current assets	\$ 176,612	\$ 217,223	\$ 465,276	\$ 258,386
Capital assets, net	4,627,659	3,876,591	-	-
Deferred outflows	2,313,433	787,309	-	-
Total assets and deferred outflows	7,117,704	4,881,123	465,276	258,386
Total liabilities	8,294,107	4,754,923	-	157
Deferred inflows	457,623	-	-	-
Total liabilities and deferred inflows	8,751,730	4,754,923	-	157
Invested in capital assets	2,504,164	2,293,558	-	-
Restricted	13,490	(40,421)	465,276	258,229
Unrestricted	(4,151,680)	(2,126,937)	-	-
Total net position	\$ (1,634,026)	\$ 126,200	\$ 465,276	\$ 258,229

Net position may serve over time as a useful indicator of a government's financial position. In the case of the City, liabilities and deferred inflows exceeded assets and deferred inflows leaving the City in a negative net position as of June 30, 2018.

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 decreased \$99,057 due to cash paid for developing projects such as Riverfront Commons and Train Viewing Station. Additionally, liabilities increased nearly \$4 million. The change in the pension and other post-employment benefits accounted for \$3 million of the increase, the remaining increase is attributed to increased vendor payables and capital financing.

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.

Change in Net Position

	Governmental Activities		Business-type Activities	
	2018	2017	2018	2017
Revenues				
Charges for services	\$ 882,404	\$ 857,900	\$ 205,157	\$ 58,735
Operating grants and contributions	203,638	186,971	-	-
Capital grants and contributions	200,000	-	-	-
General Revenues				
Taxes	1,569,713	1,507,823	7,003	1,925
License and permit fees	538,033	542,773	-	-
Code Enforcement Board	14,890	54,587	-	-
Miscellaneous	3,315	29,410	-	-
Unrestricted investment earnings	14	3	-	-
Total revenues:	<u>3,412,007</u>	<u>3,179,467</u>	<u>212,160</u>	<u>60,660</u>
Expenses				
Legislative and administrative	1,231,648	1,134,272	-	-
Fire and EMS expenses	757,299	677,924	-	-
Streets	91,424	117,936	-	-
Park department	12,851	12,941	-	-
Public safety	1,809,285	1,411,004	-	-
Public works	361,450	257,709	-	-
Revolving loan fund	-	-	5,113	48,112
Interest on long-term debt	68,851	65,209	-	-
Total expenses:	<u>4,332,808</u>	<u>3,676,995</u>	<u>5,113</u>	<u>48,112</u>
Change in Net Position	<u>\$ (920,801)</u>	<u>\$ (497,528)</u>	<u>\$ 207,047</u>	<u>\$ 12,548</u>

Taxes are the primary source of income to the City and increased 4.5% this year. Charges for services includes \$205,157 payments to the Revolving Loan Fund. This loan was paid in full during the fiscal year.

The majority of the City's expenses are dedicated to Public Safety (59.2%), Maintenance and Public Works (10.7%), and Administration (28.5%). Overall net expenses increased by \$660,926 (18%) for the fiscal year. This increase is primarily attributable to expenses associated with additional pension and OPEB expense recognized by GASB 68/75.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2018, the City had \$4,627,659 invested in capital assets (net of depreciation), all in governmental activities.

Capital Assets (Net of Depreciation)

	<u>2018</u>	<u>2017</u>
Land	\$ 1,066,000	\$ 1,066,000
Construction in progress	1,121,782	199,263
Buildings/Equipment	3,124,578	3,124,578
Infrastructure	24,800,981	24,800,981
Vehicles	<u>1,586,208</u>	<u>1,522,484</u>
Subtotal	31,699,549	30,713,306
Accumulated depreciation	<u>(27,071,890)</u>	<u>(26,836,715)</u>
Total assets, net	<u>\$ 4,627,659</u>	<u>\$ 3,876,591</u>

This year's net increase of \$986,243 in capital assets included:

Purchase of 2 police vehicles	\$ 63,724
Construction in progress for Municipal Lot/Train Viewing Station	922,519
	<u>\$ 986,243</u>

Debt

The long-term debt for the City at June 30, 2018 and 2017 is as follows:

	Governmental Activities			June 30, 2018
	June 30, 2017	Additions	Deletions	
KLC funding trust	\$ 520,169	\$ -	\$ (24,013)	\$ 496,156
Leases	173,281	563,724	(114,471)	622,534
NKADD loan	-	140,222	-	140,222
2014B revenue bonds	<u>889,583</u>	<u>-</u>	<u>(25,000)</u>	<u>864,583</u>
Totals	<u>\$ 1,583,033</u>	<u>\$ 703,946</u>	<u>\$ (163,484)</u>	<u>\$ 2,123,495</u>

GASB 68 PENSION AND GASB 75 OPEB LIABILITY RECOGNITION

As of June 30, 2018, the City is required, by Governmental Accounting Standards Board Statements No. 68 and 75, to display its proportionate share of the unfunded liability of the Kentucky Retirement System's County Employee Retirement System (CERS), a cost sharing multiple employer plan, in which the District is a participant. The net pension and OPEB liability, \$5,375,274, the deferred outflow of resources, \$2,313,433, and the deferred inflow of resources,

\$457,623, on the Statement of Net Position at June 30, 2018 are a function of this required reporting. The 2017 Statement of Net Position has been restated by (\$839,425) to include the beginning balance of the net OPEB liability at June 30, 2017; general expenditures were also restated to recognize the additional pension and OPEB expense. Detailed information on this pension and OPEB recognition can be found in Note J in the Notes to the Financial Statements.

Economic Factors and Next Year's Budget

While the City has sustained substantial losses the past two years, management has developed a multi-pronged action plan for improving both revenue and expense streams and increasing the tax anticipation note to ensure the City is able to meet its continuing obligations. See Note Q in the Notes to the Financial Statements for more information.

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, 2018

	Primary Government		
	Governmental	Business-type	Total
Assets	Activities	Activities	Total
Cash and cash equivalents	\$ 15,595	\$ 8,960	\$ 24,555
Accounts receivable	161,017	456,316	617,333
Capital assets			
Land (not depreciated)	2,187,782	-	2,187,782
Property, plant and equipment, net of accumulated depreciation	2,439,877	-	2,439,877
Total Assets	4,804,271	465,276	5,269,547
Deferred Outflows of Resources			
Deferred outflows related to pensions and OPEB	2,313,433	-	2,313,433
Total Deferred Outflows of Resources	2,313,433	-	2,313,433
Total Assets and Deferred Outflows of Resources	7,117,704	465,276	7,582,980
Liabilities			
Accounts payable	241,584	-	241,584
Accrued payroll and payroll taxes	2,836	-	2,836
Accounts payable - Revolving Loan Fund	452,842	-	452,842
Long-term liabilities			
Compensated absences	98,076	-	98,076
Due within one year	129,971	-	129,971
Due in more than one year	1,993,524	-	1,993,524
Net pension liability and OPEB liability	5,375,274	-	5,375,274
Total Liabilities	8,294,107	-	8,294,107
Deferred Inflows of Resources			
Deferred inflows of related to pensions and OPEB	457,623	-	457,623
Total Liabilities and Deferred Inflows of Resources	8,751,730	-	8,751,730
Net Position			
Invested in capital assets	2,504,164	-	2,504,164
Restricted	13,490	465,276	478,766
Unrestricted	(4,151,680)	-	(4,151,680)
Total Net Position	\$ (1,634,026)	\$ 465,276	\$ (1,168,750)

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

CITY OF LUDLOW, KENTUCKY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018

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	\$ 1,244,499	\$ 386,876	\$ -	\$ -	\$ (857,623)	\$ -	\$ (857,623)
Public safety	1,809,285	48,240	83,255	-	(1,677,790)	-	(1,677,790)
Public works	361,450	-	17,179	200,000	(144,271)	-	(144,271)
Streets	91,424	-	88,899	-	(2,525)	-	(2,525)
Fire and EMS	757,299	447,288	14,305	-	(295,706)	-	(295,706)
Interest on long-term debt	68,851	-	-	-	(68,851)	-	(68,851)
Total governmental activities	4,332,808	882,404	203,638	200,000	(3,046,766)	-	(3,046,766)
Business-type activities							
Revolving loan fund	5,113	205,157	-	-	-	200,044	200,044
Total Primary Government	\$ 4,337,921	\$ 1,087,561	\$ 203,638	\$ 200,000	(3,046,766)	200,044	(2,846,722)
General revenues							
Taxes							
Property taxes, levied for general purposes					833,340	-	833,340
Insurance premium taxes					582,326	-	582,326
Other taxes					154,047	-	154,047
Sales tax received					-	7,003	7,003
Licenses and permit fees							
Payroll/gross receipts license fees					339,763	-	339,763
Other licenses, fees & permits					198,270	-	198,270
Code enforcement/blight abatement					14,890	-	14,890
Investment earnings					14	-	14
Miscellaneous					3,315	-	3,315
Total general revenues					2,125,965	7,003	2,132,968
Change in net position					(920,801)	207,047	(713,754)
Net position, beginning					126,200	258,229	384,429
Prior period adjustment-GASB 75					(839,425)	-	(839,425)
Net position, ending					\$ (1,634,026)	\$ 465,276	\$ (1,168,750)

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

CITY OF LUDLOW, KENTUCKY BALANCE SHEET - GOVERNMENTAL FUNDS June 30, 2018
--

	<u>General Fund</u>	<u>Municipal Road Aid Fund</u>	<u>Special Revenue Funds</u>	<u>Total Governmental Funds 2018</u>
Assets				
Cash and cash equivalents	\$ 12,864	\$ 2,731	\$ -	\$ 15,595
Accounts receivable	18,281	-	-	18,281
Insurance tax receivable	142,736	-	-	142,736
Due from other funds	-	10,759	-	10,759
Total Assets	<u>\$ 173,881</u>	<u>\$ 13,490</u>	<u>\$ -</u>	<u>\$ 187,371</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 241,584	\$ -	\$ -	\$ 241,584
Accrued payroll and payroll taxes	2,836	-	-	2,836
Due to revolving loan fund	452,842	-	-	452,842
Due to other funds	10,759	-	-	10,759
Total Liabilities	<u>708,021</u>	<u>-</u>	<u>-</u>	<u>708,021</u>
Fund Balances				
Reported in:				
General fund - unassigned	(534,140)	-	-	(534,140)
Municipal road aid fund - restricted	-	13,490	-	13,490
Fire and EMS fund - committed	-	-	-	-
Acquisition Fund - committed	-	-	-	-
Total Fund Balances	<u>(534,140)</u>	<u>13,490</u>	<u>-</u>	<u>(520,650)</u>
Total Liabilities and Fund Balances	<u>\$ 173,881</u>	<u>\$ 13,490</u>	<u>\$ -</u>	<u>\$ 187,371</u>
Total governmental fund balances				\$ (520,650)
Amounts reported for governmental activities in the statement of net position are different because:				
Capital assets of \$31,699,549, net of accumulated depreciation of (\$27,071,890), used in governmental activities are not financial resources and, therefore, are not reported in the funds.				4,627,659
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				2,313,433
Deferred inflow of resources				(457,623)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.				
Compensated absences				(98,076)
Notes payable				(2,123,495)
Net pension liability				(5,375,274)
Net position of governmental activities				<u>\$ (1,634,026)</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, 2018

	Governmental Fund Types			Totals	
	General	Municipal Road Aid Fund	Special Revenue	2018	Memo Only 2017
Revenues					
General fund revenue	\$ 2,846,515	\$ -	-	\$ 2,846,515	\$ 2,626,995
Municipal road aid fund revenue	-	88,899	-	88,899	88,549
Fire and EMS revenue	461,593	-	-	461,593	463,926
Capital fund grant	15,000	-	-	15,000	-
Total Revenues	3,323,108	88,899	-	3,412,007	3,179,470
Expenditures					
Current					
Administrative expenditures	1,139,081	-	-	1,139,081	1,077,680
Police department expenditures	1,328,399	-	-	1,328,399	1,250,770
Public works expenditures	300,439	-	-	300,439	203,399
Park department expenditures	12,851	-	-	12,851	12,941
Municipal aid expenditures	-	34,988	-	34,988	61,500
Fire and EMS expenditures	566,726	-	-	566,726	569,045
Capital outlay	986,243	-	-	986,243	269,926
Debt service					
Principal	163,484	-	-	163,484	147,388
Interest	68,851	-	-	68,851	65,209
Total Expenditures	4,566,074	34,988	-	4,601,062	3,657,858
Excess (Deficit) of Revenues Over (Under) Expenditures	(1,242,966)	53,911	-	(1,189,055)	(478,388)
Other Financing Sources (Uses)					
Transfers in	(199,263)	-	-	(199,263)	146,786
Transfers out	-	-	199,263	199,263	(146,786)
Loan proceeds	703,946	-	-	703,946	70,663
Proceeds from disposal of property	-	-	-	-	-
Total Other Financing Sources (Uses)	504,683	-	199,263	703,946	70,663
Excess (Deficit) of Revenues and Other Sources Over (Under) Expenditures	(738,283)	53,911	199,263	(485,109)	(407,725)
Fund Balance, Beginning of Year	204,143	(40,421)	(199,263)	(35,541)	372,184
Fund Balance, End of Year	\$ (534,140)	\$ 13,490	\$ -	\$ (520,650)	\$ (35,541)

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, 2018</p>
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Net change in fund balances - total governmental funds \$ (485,109)

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	986,243
Depreciation expense	(235,175)

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	(642,694)
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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.	163,484
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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	(703,946)
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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	<u>(3,604)</u>
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Change in net position of governmental activities \$ (920,801)

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

CITY OF LUDLOW, KENTUCKY STATEMENT OF NET POSITION - REVOLVING LOAN FUND June 30, 2018

Assets

Current Assets

Cash and cash equivalents	\$ 8,960
Accounts Receivable	452,842
Elm Street Business District Facade Program	3,474
Total Current Assets	<u>465,276</u>

Total Assets

465,276

Net Position

Restricted	<u>465,276</u>
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Total Net Position

\$ 465,276

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, 2018</p>
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Operating Revenues

Lease principal income	\$ 203,264
Lease interest income	1,893
Sales tax collected	<u>7,003</u>

Total Operating Revenues	<u>212,160</u>
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Operating Expenses

Administrative fees	44
Sales tax remitted	<u>5,069</u>

Total Operating Expenses	<u>5,113</u>
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Operating Income	207,047
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Transfer In, Net	<u>-</u>
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Change in Net Position	207,047
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Net Position, July 1	<u>258,229</u>
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Net Position, June 30	<u><u>\$ 465,276</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, 2018
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Cash Flows from Operating Activities	
Received from customers	\$ 212,160
Paid to suppliers for goods and services	<u>(5,271)</u>
Net Change in Cash from Operating Activities	<u>206,889</u>
Cash Flows from Non-Capital Financing Activities	
Purchases on behalf of City of Ludlow	(253,579)
Elm Street Business District Façade Program	<u>(3,474)</u>
Net Change in Cash from Non-Capital Financing Activities	<u>(257,053)</u>
Cash Flows from Capital and Related Financing Activities	
Acquisition of fixed assets	<u>-</u>
Net Change in Cash from Capital and Financing Activities	<u>-</u>
Decrease in Cash and Cash Equivalents	(50,164)
Cash and Cash Equivalents, Beginning of Year	<u>59,124</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 8,960</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	\$ 207,047
Adjustments to reconcile net income to net cash provided by operating activities	
Decrease in accounts payable	(158)
Net Cash Provided by Operating Activities	<u><u>\$ 206,889</u></u>

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

CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2018

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, 2018

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 Fund.

CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2018

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, 2018, 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, 2018

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, 2018, as reported in the government-wide financial statements, is \$98,076.

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, 2018 was \$2,123,495 of which \$129,971 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, 2018</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, 2018:

<u>Budget Line</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Legislative and Administrative	\$ 1,125,941	\$ 1,211,471	\$ (85,530)
Public works	\$ 340,271	\$ 374,587	\$ (34,316)
Capital improvements	\$ 491,553	\$ 922,519	\$ (430,966)

CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2018

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, 2018, the City had cash and cash equivalents of \$24,555. 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, 2018:

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018
Land (not depreciated)	\$ 1,066,000	\$ -	\$ -	\$ 1,066,000
Construction in progress	199,263	922,519	-	1,121,782
Infrastructure	24,800,981	-	-	24,800,981
Buildings and equipment	3,124,578	-	-	3,124,578
Vehicles	1,522,484	63,724	-	1,586,208
Fixed Assets	30,713,306	986,243	-	31,699,549
Accumulated Depreciation	(26,836,715)	(235,175)	-	(27,071,890)
Net Fixed Assets	<u>\$ 3,876,591</u>	<u>\$ 751,068</u>	<u>\$ -</u>	<u>\$ 4,627,659</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 was 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 and paid the lease in full in fiscal year ending June 30, 2018.

<p>CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2018</p>
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NOTE G – LONG-TERM DEBT

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

Capital Lease – KLC Funding Trust

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

Fiscal Year Ending June 30,	Principal	Interest	Payment
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
2023	28,966	14,812	43,778
2024-2028	162,272	56,618	218,890
2029-2033	199,338	19,552	218,890
2034	3,585	64	3,649
Total	<u>\$ 499,741</u>	<u>\$ 160,578</u>	<u>\$ 660,319</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
2019	\$ 12,622	\$ 800	\$ 13,422
2020	13,123	299	13,422
Total	<u>\$ 25,745</u>	<u>\$ 1,099</u>	<u>\$ 26,844</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.

CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2018

Annual lease payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Payment
2019	\$ 5,803	\$ 1,196	\$ 6,999
2020	6,373	626	6,999
Total	<u>\$ 12,176</u>	<u>\$ 1,822</u>	<u>\$ 13,998</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
2019	\$ 13,072	\$ 4,445	\$ 17,517
2020	14,412	3,105	17,517
2021	15,888	1,629	17,517
Total	<u>\$ 43,372</u>	<u>\$ 9,179</u>	<u>\$ 52,551</u>

Capital Lease – US Bank Equipment Finance

The City executed a lease on March 5, 2018 with US Bank Equipment Finance for the purchase of two 2018 police vehicles capitalized at a cost of \$63,724. This lease is secured by the vehicles and requires an annual payment of \$1722,724 each December. Final payment will be December 2020.

Annual lease payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Payment
2019	\$ 20,840	\$ 1,884	\$ 22,724
2020	21,026	1,698	22,724
2021	21,858	866	22,724
Total	<u>\$ 63,724</u>	<u>\$ 4,448</u>	<u>\$ 68,172</u>

<p>CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2018</p>
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Promissory Note – Northern Kentucky Area Development

On October 30, 2017, the City executed a promissory note agreement with Northern Kentucky Area Development District, a regional planning council, to provide additional construction monies for the Municipal Lot/Train Viewing Station. The note, not to exceed \$286,744, is secured by the project, carries a 0% interest rate and will require monthly payments of \$1,788 for ten years. The City has no current portion of principal due on this note at June 30, 2018. The following are the draws on the note during the fiscal year ended June 20, 2018:

<u>Draw #</u>	<u>Date</u>	<u>Amount</u>
1	4/12/2018	\$ 14,208
2	5/18/2018	110,314
3	6/22/2018	15,700
Total Note Principal		<u>\$ 140,222</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 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:

<u>Ending June 30,</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
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	4.300%	30,000	28,969	58,969
2024-2028	4.300%	162,083	129,903	291,986
2029-2033	4.800%	199,167	99,582	298,749
2034-2038	4.800%	249,166	58,074	307,240
2039-2041	4.800%	117,084	9,308	126,392
Total		<u>\$ 864,583</u>	<u>\$ 450,148</u>	<u>\$ 1,314,731</u>

CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2018

Branch Banking & Trust – Lease Agreement

The City executed a 2.88% interest, 15-year \$500,000 lease payable with Branch Banking & Trust (BB & T) effective July 27, 2017 to finance the acquisition, construction, installation and equipping of the municipal lot and rail viewing station. The termination date of this secured lease is July 21, 2032. The City makes monthly payments of \$3,424. The remaining annual debt service requirements are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Payment
2019	\$ 27,701	\$ 13,387	\$ 41,088
2020	28,509	12,579	41,088
2021	29,341	11,747	41,088
2022	30,197	10,891	41,088
2023	31,079	10,009	41,088
2024-2028	169,539	35,901	205,440
2029-2033	161,151	10,049	171,200
Total	<u>\$ 477,517</u>	<u>\$ 104,563</u>	<u>\$ 582,080</u>

NOTE H – INDEBTEDNESS SUMMARY

The changes in long-term indebtedness for 2018 are as follows:

	Balance June 30, 2017	Additions	Retirements	Balance June 30, 2018
First Government Lease Company	\$ 6,903	\$ -	\$ (6,903)	\$ -
First Government Lease Company	17,461	-	(5,285)	12,176
First Government Lease Company	55,229	-	(11,857)	43,372
KLC Funding Trust Lease	520,169	-	(24,013)	496,156
Lease One Magnolia Lease	32,194	-	(32,194)	-
Lease One Magnolia Lease	7,424	-	(7,424)	-
Lease One Magnolia Lease	16,184	-	(16,184)	-
Lease One Magnolia Lease	37,886	-	(12,141)	25,745
US Bank Equipment Finance	-	63,724	-	63,724
Northern Kentucky Area Development	-	140,222	-	140,222
BB&T Lease	-	500,000	(22,483)	477,517
2014B Revenue Bonds	889,583	-	(25,000)	864,583
Total Debt	<u>\$ 1,583,033</u>	<u>\$ 703,946</u>	<u>\$ (163,484)</u>	2,123,495
Less: current portion of long-term debt	(141,000)			(129,971)
Total Long-Term Debt	<u>\$ 1,442,033</u>			<u>\$ 1,993,524</u>

<p>CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2018</p>
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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

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

The Plan is divided into both a **Pension Plan** and **Health Insurance Fund Plan** (Other Post-Employment Benefits; OPEB) and each plan is further sub-divided based on **Non-Hazardous** duty and **Hazardous** duty covered-employee classifications.

PENSION PLAN

Non-Hazardous Pension Plan Description

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

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

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

<p>CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2018</p>
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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 pension plan contributions by the employee are based on the tier:

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

Hazardous Pension Plan Description

Benefits Provided – CERS provides retirement, health insurance, death and disability benefits to Hazardous duty Plan employees and beneficiaries. Employees are vested in the plan after five years of service.

For retirement purposes, employees are grouped into three tiers, based on hire date:

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 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 are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months or service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years’ service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent’s beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent’s monthly final rate or pay and any dependent child will receive 10% of the decedent’s monthly final rate of pay up to 40% for all dependent children. Five years’ service is required for nonservice-related disability benefits.

<p>CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2018</p>
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Contributions – Required pension plan contributions by the employee are based on the tier:

	Required Contribution
Tier 1	8%
Tier 2	8%
Tier 3	8%

Contributions

For non-hazardous duty employees, the City contributed 19.18%, of which 14.48% was for the pension fund and 4.70% was for the health insurance fund, of the non-hazardous duty covered-employee's compensation during the fiscal year ended June 30, 2018. For hazardous duty employees, the City contributed 31.55%, of which 22.20% was for the pension fund and 9.35% was for the health insurance fund, of the hazardous duty covered-employee's compensation during the fiscal year ended June 30, 2018.

The City made all required contributions for the non-hazardous Plan pension obligation for the fiscal year in the amount of \$90,564, of which \$68,372 was for the pension fund and \$22,192 was for the health insurance fund. The City also made all required contributions for the hazardous Plan pension obligation for the fiscal year in the amount of \$252,605, of which \$177,744 was for the pension fund and \$74,861 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, 2018, the City reported a liability of \$3,943,975 (\$998,106 – non-hazardous and \$2,945,869 – hazardous) as its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2017, the City's non-hazardous employer allocation proportion was 0.01705% of the total CERS non-hazardous duty employees and 0.131672% of the total CERS hazardous duty employees. For the year ended June 30, 2018, the City recognized pension expense of \$534,991 in addition to its \$343,169 pension contribution.

CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2018

At June 30, 2018, 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	\$ 1,238	\$ (25,336)	\$ 108,051	\$ -	\$ 109,289	\$ (25,336)
Net difference between projected actual earnings on plan investments	79,049	(66,703)	193,225	(167,482)	272,274	(234,185)
Changes of assumptions	184,178	-	587,634	-	771,812	-
Changes in proportion and differences between contributions and proportionate share of contributions	20,708	(65,953)	320,089	(43,155)	340,797	(109,108)
Contributions subsequent to the measurement date	68,372	-	177,744	-	246,116	-
	<u>\$ 353,545</u>	<u>\$(157,992)</u>	<u>\$ 1,386,743</u>	<u>\$(210,637)</u>	<u>\$ 1,740,288</u>	<u>\$(368,629)</u>

The City's contributions subsequent to the measurement date of \$246,116 will be recognized as a reduction of the net pension liability in the year ending June 30, 2019.

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	Net
June 30,	Deferral
2019	\$ 503,973
2020	478,713
2021	187,818
2022	(44,950)
	<u>\$ 1,125,554</u>

Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation date	June 30, 2016
Experience study	July 1, 2008 – June 30, 2013
Actuarial cost method	Entry Age Normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market

<p>CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2018</p>
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Payroll growth	2.00%
Inflation	2.30%
Salary increase	3.05%, average, including inflation
Investment rate of return	6.25%, net of plan expense, including inflation

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

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

Changes of Assumptions

In 2017, the demographic and economic assumptions that affect the measurement of the total pension liability were updated as follows:

- The assumed investment rate was decreased from 7.5% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- The assumed rate of wage inflation was reduced from 4.00% to 3.05%.
- Payroll growth assumption was reduced from 4.00% to 2.00%.
- 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 accurately reflect experience.

CITY OF LUDLOW, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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	35%	6.91%
Combined fixed income	28%	6.18%
Real return (diversified inflation strategies)	10%	6.13%
Real estate	5%	7.63%
Absolute return (diversified hedge funds)	10%	5.63%
Private equity	10%	8.25%
Cash	2%	1.88%
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability was 6.25%. 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 6.25%. 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 6.25 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 (5.25 percent) or 1-percentage-point higher (7.25 percent) than the current rate:

	Proportionate Share of Net Pension Liability		
	1% Decrease	Current Rate	1% Increase
	5.25%	6.25%	7.25%
Non-hazardous	\$ 1,258,827	\$ 998,106	\$ 780,015
Hazardous	3,703,897	2,945,869	2,319,849
Total	\$ 4,962,724	\$ 3,943,975	\$ 3,099,864

<p>CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2018</p>
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HEALTH INSURANCE – OTHER POST-EMPLOYMENT BENEFITS

Non-Hazardous OPEB Plan Description

Benefits Provided – CERS provides retirement, health insurance, death and disability benefits to non-hazardous duty plan employees and beneficiaries. Health insurance coverage is provided through payment/partial payment of insurance premiums for both non-Medicare-eligible and Medicare-eligible retirees.

Tier 1	Participation date	Before July 1, 2003
	Benefit eligibility	Recipient of a retirement allowance
	Percentage of member premium paid by the plan	< 4 years service - 0% 4-9 years service - 25% 10-14 years service - 50% 15-19 years service - 75% 20 or more years service - 100%
Tier 2	Participation date	July 1, 2003 - August 31, 2008
	Benefit eligibility	Recipient of a retirement allowance with at least 120 months of service at retirement
	Member premium paid by the plan	\$10/month for each year of earned service with a 1.5% increase each July 1. As of July 1, 2016, the contribution was \$12.99 per month.
Tier 3	Participation date	On or after September 1, 2008
	Benefit eligibility	Recipient of a retirement allowance with at least 180 months of service at retirement
	Member premium paid by the plan	\$10/month for each year of earned service with a 1.5% increase each July 1. As of July 1, 2016, the contribution was \$12.99 per month.

Contributions – Required health insurance plan contributions by the employee are based on the tier:

	Required Contribution
Tier 1	None
Tier 2	1%
Tier 3	1%

Hazardous OPEB Plan Description

Benefits Provided – CERS provides retirement, health insurance, death and disability benefits to hazardous duty plan employees and beneficiaries. Health insurance coverage is provided through payment/partial payment of insurance premiums for both non-Medicare-eligible and Medicare-eligible retirees.

<p>CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2018</p>
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Tier 1	Participation date	Before July 1, 2003
	Benefit eligibility	Recipient of a retirement allowance
	Percentage of member premium paid by the plan	< 4 years service - 0% 4-9 years service - 25% 10-14 years service - 50% 15-19 years service - 75% 20 or more years service - 100%
Tier 2	Participation date	July 1, 2003 - August 31, 2008
	Benefit eligibility	Recipient of a retirement allowance with at least 120 months of service at retirement
	Member premium paid by the plan	\$15/month for each year of earned service with a 1.5% increase each July 1. As of July 1, 2016, the contribution was \$19.48 per month.
Tier 3	Participation date	On or after September 1, 2008
	Benefit eligibility	Recipient of a retirement allowance with at least 180 months of service at retirement
	Member premium paid by the plan	\$10/month for each year of earned service with a 1.5% increase each July 1. As of July 1, 2016, the contribution was \$19.48 per month.

Contributions – Required health insurance plan contributions by the employee are based on the tier:

	<u>Required Contribution</u>
Tier 1	None
Tier 2	1%
Tier 3	1%

Contributions

Contribution requirements for covered employees and participating governmental entities are established and may be amended by the KRS Trustees. The contractually required contribution rate for governmental entities for the year ended June 30, 2018, was 4.70% of covered-employee payroll for non-hazardous duty employees and 9.35% of covered-employee payroll for hazardous duty employees, actuarially determined as an amount that is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the OPEB plan from the City were \$22,192 for non-hazardous duty employees and \$74,861 for hazardous duty employees for the year ended June 30, 2018.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the City reported a liability for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The City's proportion of the net OPEB liability was based on a projection of the City's long-term share

<p>CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2018</p>
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of contributions to the OPEB plan relative to the projected contributions of all governmental entities, actuarially determined. At June 30, 2017, the City's proportion of the non-hazardous plan was .01705%, which was 0.001945% lower than the City's proportion at the previous measurement date. At June 30, 2017, the City's proportion of the hazardous plan was 0.13167%, which was 0.021569% higher than the City's proportion at the previous measurement date.

For the year ended June 30, 2018, the City recognized an OPEB expense of \$107,723. In addition, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB 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	\$ -	\$ (952)	\$ -	\$ (2,536)	\$ -	\$ (3,488)
Net difference between projected actual earnings on plan investments	-	(16,201)	-	(68,294)	-	(84,495)
Changes of assumptions	74,592	-	401,500	-	476,092	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	(795)	-	(216)	-	(1,011)
Contributions subsequent to the measurement date	22,192	-	74,861	-	97,053	-
	<u>\$ 96,784</u>	<u>\$ (17,948)</u>	<u>\$ 476,361</u>	<u>\$ (71,046)</u>	<u>\$ 573,145</u>	<u>\$ (88,994)</u>

The City's contributions subsequent to the measurement date, \$22,192 for non-hazardous duty employees and \$74,861 for hazardous duty employees will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Fiscal Year Ending	Net Deferral
June 30,	
2019	\$ 105,313
2020	105,313
2021	105,313
2022	53,498
2023	13,796
Thereafter	3,865
	<u>\$ 387,098</u>

CITY OF LUDLOW, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Actuarial Assumptions

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Actuarial cost method:	Entry Age Normal
Asset valuation method:	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Amortization method:	Level, percent of pay
Amortization period:	28 years, closed
Payroll growth rate:	2.00%
Investment return:	6.25%
Inflation	2.30%
Salary increases:	3.05%, average
Mortality:	RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)
Healthcare trend rates (Pre-65):	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.
Healthcare trend rates (Post-65):	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study calculated as of June 30, 2015.

The long-term expected rate of return on Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are 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 by adding expected inflation.

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 Health Insurance Target Allocation	Long Term Expected Nominal Return
Combined equity	35%	6.91%
Combined fixed income	28%	6.18%
Real return (diversified inflation strategies)	10%	6.13%
Real estate	5%	7.63%
Absolute return (diversified hedge funds)	10%	5.63%
Private equity	10%	8.25%
Cash	2%	1.88%
Total	100%	

<p>CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2018</p>

Changes of Assumptions

In 2015, the demographic and economic assumptions that affect the measurement of the total pension liability were updated as follows:

- The assumed investment return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- The assumed rate of salary increase was reduced from 4.00% to 3.05%.
- Payroll growth assumption was reduced from 4.00% to 2.00%.
- For the non-hazardous plan, the single discount rate changed from 6.89% to 5.84%
- For the hazardous plan, the single discount rate changed from 7.37% to 5.96%
- 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).

Discount Rate

The discount rate used to measure the total OPEB liability was 5.84% for the non-hazardous plan and 5.96% for the hazardous plan. The projection of cash flows used to determine the discount rate assumed that contributions from governmental entities will be made at contractually required rates, actuarially determined. Based on this assumption, the Plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

The following table presents the proportionate share of the net OPEB liability calculated using the discount rates of 5.84% for the non-hazardous plan and 5.96% for the hazardous plan, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	Proportionate Share of Net OPEB Liability		
	1.00% Decrease	Current Rate	1.00% Increase
Discount rate, non-hazardous	4.84%	5.84%	6.84%
Net OPEB liability, non-hazardous	\$ 436,198	\$ 342,804	\$ 265,084
Discount rate, hazardous	4.96%	5.96%	6.96%
Net OPEB liability, hazardous	1,458,732	1,088,495	785,580
Total	\$ 1,894,930	\$ 1,431,299	\$ 1,050,664

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the proportionate share of the net OPEB liability, as well as what the proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

<p>CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2018</p>
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	Proportionate Share of Net OPEB Liability		
	1.00% Decrease	Current Rate	1.00% Increase
Healthcare cost trend rate			
Net OPEB liability, non-hazardous	\$ 262,948	\$ 342,804	\$ 446,611
Net OPEB liability, hazardous	770,529	1,088,495	1,482,026
Total	\$ 1,033,477	\$ 1,431,299	\$ 1,928,637

Plan Fiduciary Net Position

Both the Pension Plan and the Health Insurance Plan issue publicly available financial report that include financial statements and required supplementary information, and detailed information about each Plan’s fiduciary net position. These reports 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 17.5% 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. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*

Statement No. 81 – *Irrevocable Split-Interest Agreements* – This statement is not currently applicable to the City.

Statement No. 85 – *Omnibus 2017*

Statement No. 86 – *Certain Debt Extinguishment Issues*

CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2018

NOTE O – FUTURE ACCOUNTING STANDARDS

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

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

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

Statement No. 88 – *Certain Disclosures Related to Debt* – Implementation in FY 2019

Statement No. 89 – *Accounting for Interest Cost* – Implementation in FY 2021

NOTE P – PRIOR PERIOD ADJUSTMENT

The City has recorded an adjustment to the Beginning Net Position of (\$839,425) at June 30, 2018. This adjustment accounts for the estimated net OPEB liability at June 30, 2017 and is being recorded in accordance with Government Accounting Standards Board Statement No. 75.

NOTE Q – CITY'S FINANCIAL CONDITIONS

The City sustained operating losses of (\$485,109) and (\$407,725) for the year's ended June 30, 2018 and 2017, respectively.

The City's administration has taken a proactive and aggressive position in reversing this trend. A complete financial breakdown and internal review was accomplished. After identifying areas in the budget that needed to be addressed, the mayor, city administrator, and council took the following steps to address the issues.

Immediate Actions Taken – Expense Reduction

- Eliminated three employee positions.
- Eliminated cell phones, services and amenities to the employees and buildings.
- Consolidated and changed phone and internet providers for lower costs.
- Changed health insurance providers.
- Increased employee contributions for family insurance packages.

Immediate Actions Taken – Revenue Generation

- Increased the Insurance premium tax by 2%.
- Signed a contract to provide fire and medical protection to the neighboring City of Bromley.
- Changed the EMS billing from a "soft" bill, to a "hard" billing service.
- Located uncollected franchise taxes owed to the City.
- Enforced collection of delinquent taxes, fees, fines and liens.
- Increased fees for dumpsters, storage units.

Future Actions to be Taken

- City plans to sell three or four pieces of land or properties.
- Meet with financial institutions to consolidate loans for a lower interest rate.
- Police will be trying to obtain contract with the City of Bromley to provide police service.
- Continuing pursuit of collection of all delinquent taxes.
- Sale of "Ernie's" property to developer.

CITY OF LUDLOW, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Implementation of the above listed actions is basis for the City to lessen its expenditures, better manage its debts and generate revenues to alleviate risks of future shortfalls. The City is taking proactive steps to ensure that its expenditures do not exceed its revenues. The plan set in place is the first stage in managements plan to create a balanced budget. The administration will accomplish this by eliminating the need for financial loans and assistance during parts of the fiscal year when revenue sources are low, by generating new revenue. Second, the City should ensure that expenditures do not exceed revenues generated. Third, the City will develop a plan that better manages, collects and generates taxes, fees and fines owed to the City. Finally, the administrator will work closely with the finance committee to facilitate meetings and reviews of the budget and finances to ensure better accountability.

Management believes that this action plan that will enable the City to meet its obligations for twelve-month period from the date these financial statements are available to be issued.

NOTE R – SUBSEQUENT EVENTS

The City's management has evaluated and considered the need to recognize or disclose subsequent events through May 6, 2019, which represents the date that these financial statements were available to be issued.

CITY OF LUDLOW, KENTUCKY BUDGETARY COMPARISON SCHEDULE- BUDGET TO ACTUAL- GENERAL FUND For the Year Ended June 30, 2018
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	Budgeted Amounts			Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Revisions	Final		
Budgetary fund balance, July 1, 2017	\$ -	\$ -	\$ -	\$ 204,143	\$ 204,143
Resources (inflows)					
General government revenue	2,903,030	-	2,903,030	2,846,515	(56,515)
Fire property assessment tax/Misc.	463,500	-	463,500	461,593	(1,907)
Capital improvements fund	17,000	-	17,000	15,000	(2,000)
Proceeds from loans	500,000	-	500,000	703,946	203,946
Proceeds from Revolving Loan Fund	118,500	-	118,500	-	(118,500)
Other	10,960	-	10,960		(10,960)
Transfers in		-	-	(199,263)	(199,263)
Amounts available for appropriation	4,012,990	-	4,012,990	4,031,934	18,944
Charges to appropriations (outflows)					
Legislative and administrative	1,125,941	-	1,125,941	1,211,471	(85,530)
Police	1,395,738	-	1,395,738	1,437,458	(41,720)
Public works	340,271	-	340,271	374,587	(34,316)
Parks and Misc Capital Improvements	30,400	-	30,400	12,851	17,549
Capital improvements	491,553	-	491,553	922,519	(430,966)
Fire/EMS fund	671,963	-	671,963	607,188	64,775
Economic Development	30,000	-	30,000	-	30,000
Transfers out		-	-		-
Total charges to appropriations	4,085,866	-	4,085,866	4,566,074	(480,208)
Budgetary fund balance, June 30, 2018	\$ (72,876)	\$ -	\$ (72,876)	\$ (534,140)	\$ (461,264)

CITY OF LUDLOW, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET AND ACTUAL (WITH VARIANCES) - MUNICIPAL ROAD AID FUND
For the Year Ended June 30, 2018

	Original Budget	Revisions	Final Budget	Actual	Variance Favorable (Unfavorable)
Budgetary fund balance, July 1, 2017	\$ -	\$ -	\$ -	\$ (40,421)	\$ (40,421)
Resources (inflows):					
Intergovernmental	150,000	-	150,000	88,899	(61,101)
Total resources (inflows)	150,000	-	150,000	88,899	(61,101)
Amounts available for appropriation	150,000	-	150,000	48,478	(101,522)
Charges to appropriations (outflows):					
Street repair	50,000	-	50,000	34,988	15,012
	50,000	-	50,000	34,988	15,012
Budgetary fund balance, June 30, 2018	<u>\$ 100,000</u>	<u>\$ -</u>	<u>\$ 100,000</u>	<u>\$ 13,490</u>	<u>\$ (86,510)</u>

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

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

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Proportion of net pension liability	0.01705%	0.01900%	0.17676%	0.019326%						
Proportionate share of the net pension liability (asset)	\$ 998,106	\$ 935,344	\$ 759,995	\$ 626,994						
Covered payroll in year of measurement	465,103	316,828	329,233	391,929						
Share of the net pension liability (asset) as a percentage of its covered payroll	214.60%	295.22%	230.84%	159.98%						
Plan fiduciary net position as a percentage of total pension liability	53.30%	55.50%	59.97%	66.80%						

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	\$ 68,372	\$ 64,854	\$ 39,350	\$ 41,976	\$ 53,851					
Actual contribution	68,372	64,854	39,350	41,976	53,851					
Contribution deficiency (excess)	-	-	-	-	-					
Covered payroll	472,179	465,103	316,828	329,233	391,929					
Contributions as a percentage of covered payroll	14.48%	13.94%	12.42%	12.75%	13.74%					

Notes to Required Supplementary Information
for the Year Ended June 30, 2018

The net pension liability as of June 30, 2018, is based on the June 30, 2017, 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)**

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Proportion of net pension liability	0.136720%	0.110100%	0.091799%	0.100286%						
Proportionate share of the net pension liability (asset)	\$ 2,945,869	\$ 1,889,310	\$ 1,409,219	\$ 1,205,257						
Covered payroll in year of measurement	784,672	703,574	497,525	577,923						
Share of the net pension liability (asset) as a percentage of its covered payroll	375.43%	268.53%	283.25%	208.55%						
Plan fiduciary net position as a percentage of total pension liability	49.80%	53.95%	57.52%	63.46%						

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	\$ 177,744	\$ 170,352	\$ 142,544	\$ 114,182	\$ 125,814					
Actual contribution	177,744	170,352	142,544	114,182	125,814					
Contribution deficiency (excess)	-	-	-	-	-					
Covered payroll	800,650	784,672	703,574	497,525	577,923					
Contributions as a percentage of covered payroll	22.20%	21.71%	20.26%	22.95%	21.77%					

**Notes to Required Supplementary Information
for the Year Ended June 30, 2018**

The net pension liability as of June 30, 2018, is based on the June 30, 2017, 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 OPEB PLAN DISCLOSURE-NON-HAZARDOUS Last Ten Fiscal Years

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Proportion of net OPEB liability	0.01705%	0.01900%								
Proportionate share of the net OPEB liability (asset)	\$ 342,804	\$ 935,344								
Covered payroll in year of measurement	465,103	316,828								
Share of the net OPEB liability (asset) as a percentage of its covered payroll	73.70%	295.22%								
Plan fiduciary net position as a percentage of total OPEB liability	52.40%	55.50%								

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	\$ 22,192	\$ 21,990								
Actual contribution	22,192	21,990								
Contribution deficiency (excess)	-	-								
Covered payroll	472,179	465,103								
Contributions as a percentage of covered payroll	4.70%	4.73%								

**Notes to Required Supplementary Information
for the Year Ended June 30, 2018**

The net pension liability as of June 30, 2018, is based on the June 30, 2017, 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 OPEB PLAN DISCLOSURE-HAZARDOUS
Last Ten Fiscal Years

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Proportion of net OPEB liability	0.13167%	0.01900%								
Proportionate share of the net OPEB liability (asset)	\$ 1,088,495	\$ 935,344								
Covered payroll in year of measurement	784,672	703,574								
Share of the net OPEB liability (asset) as a percentage of its covered payroll	138.72%	132.94%								
Plan fiduciary net position as a percentage of total OPEB liability	59.00%	55.50%								

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	\$ 74,861	\$ 73,367								
Actual contribution	74,861	73,367								
Contribution deficiency (excess)	-	-								
Covered payroll	800,850	784,672								
Contributions as a percentage of covered payroll	9.35%	9.35%								

Notes to Required Supplementary Information
for the Year Ended June 30, 2018

The net pension liability as of June 30, 2018, is based on the June 30, 2017, actuarial valuation. The changes to the elements of the OPEB 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 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - SPECIAL REVENUE FUNDS
For the Year Ended June 30, 2018

	<u>Fire and EMS</u>	<u>Acquisition Fund</u>	<u>Totals 2018</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	-	-	-
Capital outlay expenditures	-	-	-
Debt service expenditures	-	-	-
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficit) of Revenues Over (Under) Expenditures Before Other Sources	<u>-</u>	<u>-</u>	<u>-</u>
Other Financing Sources (Uses)			
Transfers in		-	-
Transfers out	-	199,263	199,263
Proceeds from loans	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>199,263</u>	<u>199,263</u>
Excess (Deficit) of Revenues Over (Under) Expenditures	-	199,263	199,263
Fund Balances, Beginning of Year		(199,263)	(199,263)
Fund Balances, End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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, 2018 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 May 6, 2019.

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
May 6, 2019