

CITY OF LUDLOW, KENTUCKY

FINANCIAL STATEMENTS

For the Year Ended June 30, 2020

CITY OF LUDLOW, KENTUCKY

FINANCIAL STATEMENTS

For the Year Ended June 30, 2020

TABLE OF CONTENTS

	<u>Pages</u>
Introductory Section	
City Officials.....	1
Financial Section	
Independent Auditor's Report.....	2-3
Management's Discussion and Analysis.....	4-9
Basic Financial Statements	
Government Wide Financial Statements	
Statement of Net Position.....	10
Statement of Activities.....	11
Fund Financial Statements	
Balance Sheet - Governmental Funds.....	12
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	14
Statement of Net Position - Revolving Loan Fund.....	15
Statement of Revenues, Expenses, and Changes in Net Position Revolving Loan Fund.....	16
Statement of Cash Flows - Revolving Loan Fund.....	17
Notes to Financial Statements.....	18-41
Required Supplementary Information	
Budgetary Comparison Schedule - Budget to Actual - General Fund.....	42
Budgetary Comparison Schedule - Budget to Actual - Municipal Road Aid Fund.....	43
Multiple Employer, Cost Sharing, Defined Benefit Pension Plan.....	44-45
Multiple Employer, Cost Sharing, Other Post Employment Benefits Plan.....	46-47
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	48-49

CITY OF LUDLOW, KENTUCKY

CITY OFFICIALS

For the Year Ended June 30, 2020

Council Members

Josh Boone, Mayor

Steve Chapman

Julie Terry Navarre

Vanetta Davis

Bill Whiteley

Tiffany Grider

Chris Wright

City Management

Scott Smith, City Administrative Officer/Police Chief

Laurie Sparks, City Clerk

Alice Margolen, Treasurer

Todd McMurtry, Attorney

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ludlow, Kentucky, as of and for the year ended June 30, 2020, 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, 2020 and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

-Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 4-9, the budgetary comparison schedules on pages 42-43 and the pension and OPEB disclosures on pages 44-47 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2021 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Ludlow's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Ludlow, Kentucky's internal control over financial reporting and compliance.

Van Gorder, Walker & Co., Inc.

Van Gorder, Walker & Co., Inc.
Erlanger, Kentucky
January 29, 2021

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020
UNAUDITED**

Our discussion and analysis of the City of Ludlow's financial performance for the fiscal year ended June 30, 2020, is intended to compliment the formal financial statements that begin on page 10. 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 2-3.
2. This section, Management's Discussion and Analysis.
3. Formal financial statements and supporting schedules, pages 10 thru 17.
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 (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 HIGHLIGHTS

- The City's governmental activities net position is (\$2,384,774)
- During the year the City's governmental activities net position decreased (\$625,675)
- GASB No. 68 - Accounting and Financial Reporting for Pensions - requires the City to record its proportionate share of the County Employees' Retirement System (CERS) net pension liability. The City has recorded a net pension liability of \$5,191,816 as well as related deferred outflows and inflows of resources as a result of this standard
- GASB No. 75 - Accounting and Financial Reporting for Other Post-Employment Health Insurance Benefits (OPEB) - requires the City to record its proportionate share of the County Employees' Retirement System (CERS) net OPEB liability. The City has recorded a net pension liability of \$1,362,870 as well as related deferred outflows and inflows of resources as a result of this standard
- The City recorded a non-cash expense of \$963,671 as a result in the change of their proportionate share in the County Employees' Retirement System (CERS)

Net Position of Primary Government

	Governmental Activities		Business-type Activities	
	2020	2019	2020	2019
Current assets	\$ 1,095,515	\$ 857,432	\$ 33,919	\$ 465,276
Capital assets, net	4,462,491	4,600,234	-	-
Deferred outflows	1,873,994	2,173,834	-	-
Total assets and deferred outflows	<u>7,432,000</u>	<u>7,631,500</u>	<u>33,919</u>	<u>465,276</u>
Total liabilities	9,216,519	8,744,150	-	-
Deferred inflows	600,255	646,449	-	-
Total liabilities and deferred inflows	<u>9,816,774</u>	<u>9,390,599</u>	<u>-</u>	<u>-</u>
Invested in capital assets	2,053,025	1,905,260	-	-
Restricted	125,145	76,374	-	-
Unrestricted	<u>(4,562,944)</u>	<u>(3,740,733)</u>	<u>33,919</u>	<u>465,276</u>
Total Net Position	<u><u>\$ (2,384,774)</u></u>	<u><u>\$ (1,759,099)</u></u>	<u><u>\$ 33,919</u></u>	<u><u>\$ 465,276</u></u>

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, 2020.

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 increased \$101,031 due to the City's proactive approach to revenue generation and expense reductions. The change in the pension and other post-employment benefits accounted for \$663,831 increase in liabilities. Additionally, the City plans to pay nearly \$586,000 of their debt in fiscal year 2021.

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. Using the lease proceeds the City provides financing for building façade improvements to properties located in the Elm Street Business District.

Change in Net Position

	Governmental Activities		Business-type Activities	
	2020	2019	2020	2019
Revenues				
Charges for services	\$ 1,074,553	\$ 996,857	\$ -	\$ -
Operating grants and contributions	218,516	161,173	-	-
Capital grants and contributions	-	413,543	-	-
General Revenues				
Taxes	1,967,104	2,326,815	-	-
License and permit fees	540,742	557,852	-	-
Code Enforcement Board	50,363	47,830	-	-
Miscellaneous	15,827	16,636	-	-
Unrestricted investment earnings	126	225	183	216
Total revenues:	<u>3,867,231</u>	<u>4,520,931</u>	<u>183</u>	<u>216</u>
Expenses				
Legislative and administrative	1,136,614	1,270,008	-	-
Fire and EMS expenses	633,440	706,242	-	-
Streets	85,691	83,788	-	-
Park department	9,996	5,791	-	-
Public safety	1,392,311	1,444,938	-	-
Public works	189,135	316,498	-	-
Revolving loan fund	-	-	10,743	421,013
Interest on long-term debt	82,048	20,927	-	-
Unallocated pension/OPEB expense	963,671	797,812	-	-
Total expenses:	<u>4,492,906</u>	<u>4,646,004</u>	<u>10,743</u>	<u>421,013</u>
Change in Net Position	<u>\$ (625,675)</u>	<u>\$ (125,073)</u>	<u>\$ (10,560)</u>	<u>\$ (420,797)</u>

Taxes are the primary source of income to the City and decreased 15.5% this year. Collection of franchise taxes returned to a normal level in 2020 and attributed to the overall decrease in taxes reflected for the year. Charges for services increased 7.8% during the fiscal year as a result of the City of Bromley contract with the City of Ludlow to provide EMS services and the City began operating the Ludlow Senior Center.

The majority of the City's expenses are dedicated to Public Safety (45.8%), Maintenance and Public Works (6.1%), and Administration (25.3%). General fund expenses decreased by \$153,098 (3.3%) for the fiscal year.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2020, the City had \$4,462,491 invested in capital assets (net of depreciation), all in governmental activities.

Capital Assets (Net of Depreciation)

	<u>2020</u>	<u>2019</u>
Land	\$ 986,328	\$ 1,066,000
Construction in progress	162,448	107,177
Buildings/Equipment	4,430,125	4,371,457
Infrastructure	24,800,981	24,800,981
Vehicles	1,503,342	1,546,361
Subtotal	<u>31,883,224</u>	<u>31,891,976</u>
Accumulated depreciation	<u>(27,420,733)</u>	<u>(27,291,742)</u>
Total assets, net	<u>\$ 4,462,491</u>	<u>\$ 4,600,234</u>

This year's net decrease of (\$137,743) in capital assets included:

Office equipment	\$ 15,445
Defibrillator and security system upgrade	43,223
Construction in progress-Adela Street	55,271
Sale of old city hall site	(79,672)
Depreciation	(172,010)
	<u>\$ (137,743)</u>

Debt

The long-term debt for the City at June 30, 2020 and 2019 is as follows:

	<u>2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>2020</u>
KLC funding trust	\$ 471,223	\$ -	\$ (25,855)	\$ 445,368
Leases	697,068	36,975	(116,901)	617,142
NKADD loan	200,253	-	(17,880)	182,373
Tax Anticipation Notes	486,847	-	(136,847)	350,000
2014B revenue bonds	839,583	-	(25,000)	814,583
Totals	<u>\$ 2,694,974</u>	<u>\$ 36,975</u>	<u>\$ (322,483)</u>	<u>\$ 2,409,466</u>

GASB 68 PENSION AND GASB 75 OPEB LIABILITY RECOGNITION

As of June 30, 2020, 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 City is a participant. The net pension and OPEB liability, \$6,554,686 the deferred outflow of resources, \$1,873,994 and the deferred inflow of resources, \$600,255 on the Statement of Net Position at June 30, 2020 are a function of this required reporting. Detailed information on this pension and OPEB recognition can be found in Note I in the Notes to the Financial Statements.

Economic Factors and Next Year's Budget

Management developed a multi-pronged action plan for improving both revenue and expense streams to ensure the City is able to meet its obligations. Additionally, management is continuing to assess the potential effects of the COVID-19 Global Pandemic on the City's finances. The fiscal year 2021 budget provides adequate resources for the continuation of services and care will be taken that all expenditures are prudent, and the City will strengthen its financial position.

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 Treasurer 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, 2020

	Primary Government		
	Governmental	Business-type	Total
Assets	Activities	Activities	Total
Cash and cash equivalents	\$ 790,877	\$ 31,835	\$ 822,712
Accounts receivable	304,638	2,084	306,722
Capital assets			
Land (not depreciated)	1,148,776	-	1,148,776
Property, plant and equipment, net of accumulated depreciation	3,313,715	-	3,313,715
Total Assets	5,558,006	33,919	5,591,925
Deferred Outflows of Resources			
Deferred outflows related to pensions and OPEB	1,873,994	-	1,873,994
Total Deferred Outflows of Resources	1,873,994	-	1,873,994
Total Assets and Deferred Outflows of Resources	7,432,000	33,919	7,465,919
Liabilities			
Accounts payable	106,700	-	106,700
Accrued payroll and payroll taxes	51,036	-	51,036
Long-term liabilities			
Compensated absences	94,631	-	94,631
Due within one year	586,013	-	586,013
Due in more than one year	1,823,453	-	1,823,453
Net pension liability and OPEB liability	6,554,686	-	6,554,686
Total Liabilities	9,216,519	-	9,216,519
Deferred Inflows of Resources			
Deferred inflows of related to pensions and OPEB	600,255	-	600,255
Total Liabilities and Deferred Inflows of Resources	9,816,774	-	9,816,774
Net Position			
Invested in capital assets	2,053,025	-	2,053,025
Restricted	125,145	33,919	159,064
Unrestricted	(4,562,944)	-	(4,562,944)
Total Net Position	\$(2,384,774)	\$ 33,919	\$(2,350,855)

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

CITY OF LUDLOW, KENTUCKY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2020

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	\$ 1,146,610	\$ 494,518	\$ -	\$ -	\$ (652,092)	\$ -	\$ (652,092)
Public safety	1,392,311	57,572	85,219	-	(1,249,520)	-	(1,249,520)
Public works	189,135	-	-	-	(189,135)	-	(189,135)
Streets	85,691	-	133,297	-	47,606	-	47,606
Fire and EMS	633,440	522,463	-	-	(110,977)	-	(110,977)
Interest on long-term debt	82,048	-	-	-	(82,048)	-	(82,048)
Unallocated pension/OPEB expense	963,671	-	-	-	(963,671)	-	(963,671)
Total governmental activities	4,492,906	1,074,553	218,516	-	(3,199,837)	-	(3,199,837)
Business-type activities							
Revolving loan fund	10,743	-	-	-	-	(10,743)	(10,743)
Total Primary Government	\$ 4,503,649	\$ 1,074,553	\$ 218,516	\$ -	(3,199,837)	(10,743)	(3,210,580)
General revenues							
Taxes							
Property taxes, levied for general purposes					1,011,734	-	1,011,734
Insurance premium taxes					702,213	-	702,213
Other taxes					253,157	-	253,157
Licenses and permit fees							
Payroll/gross receipts license fees					387,592	-	387,592
Other licenses, fees & permits					153,150	-	153,150
Code enforcement/blight abatement					50,363	-	50,363
Investment earnings					126	183	309
Sale of property					9,209	-	9,209
Miscellaneous					6,618	-	6,618
Total general revenues					2,574,162	183	2,574,345
Change in net position					(625,675)	(10,560)	(636,235)
Net position, beginning					(1,759,099)	44,479	(1,714,620)
					\$ (2,384,774)	\$ 33,919	\$ (2,350,855)

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

CITY OF LUDLOW, KENTUCKY BALANCE SHEET - GOVERNMENTAL FUNDS June 30, 2020

	<u>General Fund</u>	<u>Municipal Road Aid Fund</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 674,750	\$ 116,127	\$ 790,877
Accounts receivable	269,762	17,830	287,592
Prepaid expenses	17,046	-	17,046
Due from other funds	-	759	759
Total Assets	<u>\$ 961,558</u>	<u>\$ 134,716</u>	<u>\$ 1,096,274</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 97,129	\$ 9,571	\$ 106,700
Accrued payroll and payroll taxes	51,036	-	51,036
Due to other funds	759	-	759
Total Liabilities	<u>148,924</u>	<u>9,571</u>	<u>158,495</u>
Fund Balances			
Reported in:			
General fund - unassigned	795,588	-	795,588
Nonspendable	17,046	-	17,046
Municipal road aid fund - restricted	-	125,145	125,145
Total Fund Balances	<u>812,634</u>	<u>125,145</u>	<u>937,779</u>
Total Liabilities and Fund Balances	<u>\$ 961,558</u>	<u>\$ 134,716</u>	<u>\$ 1,096,274</u>

Reconciliation of Fund Balances to the Statement of Net Position

Total Fund Balance for Governmental Funds	\$ 937,779
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets of \$31,883,224, net of accumulated depreciation of (\$27,420,733), used in governmental activities are not financial resources and, therefore, are not reported in the funds.	4,462,491
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	1,873,994
Deferred inflow of resources	(600,255)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	
Compensated absences	(94,631)
Notes payable	(2,409,466)
Net pension and OPEB liability	(6,554,686)
Net position of governmental activities	<u>\$ (2,384,774)</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, 2020

	Governmental Funds		Totals	
	General	Municipal Road Aid Fund	2020	Memo Only 2019
Revenues				
General fund revenue	\$ 3,211,471	\$ -	\$ 3,211,471	\$ 3,543,896
Municipal road aid fund revenue	-	133,297	133,297	90,236
Fire and EMS revenue	522,463	-	522,463	473,256
Capital fund grant	79,672	-	79,672	-
Total Revenues	3,813,606	133,297	3,946,903	4,107,388
Expenditures				
Current				
Administrative expenditures	1,079,310	-	1,079,310	1,229,155
Police department expenditures	1,389,651	-	1,389,651	1,353,786
Public works expenditures	176,254	-	176,254	287,741
Park department expenditures	9,996	-	9,996	5,791
Municipal aid expenditures	-	29,255	29,255	27,352
Fire and EMS expenditures	632,439	-	632,439	622,958
Capital outlay	58,668	55,271	113,939	234,774
Debt service				
Principal	322,483	-	322,483	146,619
Interest	82,048	-	82,048	20,927
Total Expenditures	3,750,849	84,526	3,835,375	3,929,103
Excess (Deficit) of Revenues Over (Under) Expenditures	62,757	48,771	111,528	178,285
Other Financing Sources (Uses)				
Transfers	-	-	-	-
Proceeds from Revolving Loan Fund	-	-	-	413,543
Loan proceeds	36,975	-	36,975	718,098
Total Other Financing Sources (Uses)	36,975	-	36,975	1,131,641
Excess (Deficit) of Revenues and Other Sources Over (Under) Expenditures	99,732	48,771	148,503	1,309,926
Fund Balance, Beginning of Year	712,902	76,374	789,276	(520,650)
Fund Balance, End of Year	\$ 812,634	\$ 125,145	\$ 937,779	\$ 789,276

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, 2020</p>

Net change in fund balances - total governmental funds \$ 148,503

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	113,939
Depreciation expense	(172,010)
Land sold at cost	(79,672)

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	(963,671)
--------------------------	-----------

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.

322,483

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

(36,975)

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	41,728
----------------------	--------

Change in net position of governmental activities \$ (625,675)

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

CITY OF LUDLOW, KENTUCKY STATEMENT OF NET POSITION - REVOLVING LOAN FUND June 30, 2020

Assets

Current Assets

Cash and cash equivalents	\$ 31,835
Elm Street Business District Facade Program	<u>2,084</u>
Total Current Assets	<u>33,919</u>

Total Assets	<u>33,919</u>
---------------------	---------------

Net Position

Restricted	<u>33,919</u>
------------	---------------

Total Net Position	<u><u>\$ 33,919</u></u>
---------------------------	-------------------------

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, 2020</p>

Operating Revenues

Interest income	\$ 183
-----------------	--------

Total Operating Revenues	<u>183</u>
---------------------------------	------------

Operating Expenses

Administrative fees	48
Façade grant	<u>10,695</u>

Total Operating Expenses	<u>10,743</u>
---------------------------------	---------------

Change in Net Position	(10,560)
-------------------------------	----------

Net Position, July 1	<u>44,479</u>
-----------------------------	---------------

Net Position, June 30	<u><u>\$ 33,919</u></u>
------------------------------	-------------------------

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, 2020

Cash Flows from Operating Activities	
Received from customers	\$ 183
Paid to suppliers for goods and services	(10,048)
	<hr/>
Net Change in Cash from Operating Activities	(9,865)
	<hr/>
Cash Flows from Non-Capital Financing Activities	
Transfers in	-
	<hr/>
Net Change in Cash from Non-Capital Financing Activities	-
	<hr/>
Net Change in Cash and Cash Equivalents	(9,865)
	<hr/>
Cash and Cash Equivalents, Beginning of Year	41,700
	<hr/>
Cash and Cash Equivalents, End of Year	\$ 31,835
	<hr/> <hr/>
Reconciliation of Operating Income to Net Cash Used by Operating Activities	
Operating loss	\$ (10,560)
Adjustments to reconcile net income to net cash used by operating activities	
Amortization	695
	<hr/>
Net Change in Cash from Operating Activities	\$ (9,865)
	<hr/> <hr/>

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

CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2020

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 City

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 City applies all relevant Governmental

CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2020

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 City 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, 2020

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, 2020, 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, 2020

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, which caps at 240 hours per employee. The balance of accrued compensated absences at June 30, 2020, as reported in the government-wide financial statements, is \$94,631.

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, 2020 was \$2,409,466 of which \$586,013 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.

CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2020

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.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees Retirement System (CERS) and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost. The General Fund and Water and Sewer Fund resources are used to liquidate these liabilities.

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the County Employees Retirement System (CERS) and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost. The General Fund and Water and Sewer Fund resources are used to liquidate these liabilities.

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.

CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2020

- 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, 2020:

Budget Line	Budget	Actual	Variance
Legislative and Administrative	\$ 1,326,055	\$ 1,524,727	\$ (198,672)
Police	\$ 1,346,320	\$ 1,388,860	\$ (42,540)
Municipal road aid	\$ -	\$ 84,526	\$ (84,526)

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, 2020, the City had cash and cash equivalents of \$822,712. 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, 2020:

	Balance June 30, 2019	Additions	Deletions	Balance June 30, 2020
Land (not depreciated)	\$ 1,066,000	\$ -	\$ (79,672)	\$ 986,328
Construction in progress	107,177	55,271		162,448
Infrastructure	24,800,981	-	-	24,800,981
Buildings and equipment	4,371,457	58,668	-	4,430,125
Vehicles	1,546,361		(43,019)	1,503,342
Fixed Assets	31,891,976	113,939	(122,691)	31,883,224
Accumulated Depreciation	(27,291,742)	(172,010)	43,019	(27,420,733)
Net Fixed Assets	<u>\$ 4,600,234</u>	<u>\$ (58,071)</u>	<u>\$ (79,672)</u>	<u>\$ 4,462,491</u>

<p>CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2020</p>

NOTE F – 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
2021	\$ 26,895	\$ 16,883	\$ 43,778
2022	27,897	15,881	43,778
2023	28,966	14,812	43,778
2024	30,050	13,728	43,778
2025	31,236	12,542	43,778
2026-2030	174,921	43,969	218,890
2031-2034	125,403	9,580	134,983
Total	<u>\$ 445,368</u>	<u>\$ 127,395</u>	<u>\$ 572,763</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 was December 2019.

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 was December 2019.

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.

CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2020

Annual lease payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Payment
2021	\$ 15,888	\$ 1,629	\$ 17,517
Total	<u>\$ 15,888</u>	<u>\$ 1,629</u>	<u>\$ 17,517</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 \$22,724 each December. Final payment will be December 2020.

Annual lease payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Payment
2021	\$ 21,858	\$ 866	\$ 22,724
Total	<u>\$ 21,858</u>	<u>\$ 866</u>	<u>\$ 22,724</u>

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. Draws on the noted were \$214,557, it is secured by the project, carries a 0% interest rate and will require monthly payments of \$1,788 for ten years. Annual payments are as follows:

Fiscal Year Ending June 30,	Principal	Payment
2021	\$ 21,456	\$ 21,456
2022	21,456	21,456
2023	21,456	21,456
2024	21,456	21,456
2025	21,456	21,456
2026-2030	75,093	75,093
Total	<u>\$ 182,373</u>	<u>\$ 182,373</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 BB&T 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.

CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2020

The debt service is as follows:

Ending June 30,	Interest Rate	Principal	Interest	Total Debt Service
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	4.300%	30,000	27,994	57,994
2025	4.300%	30,000	27,019	57,019
2026-2030	4.300%	174,166	118,939	293,105
2031-2035	4.800%	219,167	84,390	303,557
2035-2039	4.800%	259,583	37,644	297,227
2040-2041	4.800%	14,584	881	15,465
Total		<u>\$ 814,583</u>	<u>\$ 386,604</u>	<u>\$ 1,201,187</u>

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
2021	\$ 29,272	\$ 11,816	\$ 41,088
2022	30,197	10,891	41,088
2023	31,079	10,009	41,088
2024	31,986	9,102	41,088
2025	32,919	8,169	41,088
2026-2030	179,578	25,862	205,440
2031-2033	83,863	2,817	86,680
Total	<u>\$ 418,894</u>	<u>\$ 78,666</u>	<u>\$ 497,560</u>

Capital Lease – US Bank Equipment Finance

The City executed a lease with Motorola for the purchase of a new radio system at a cost of \$156,916. This lease is secured by the radios and requires the following payments on January 1st each year.

Annual lease payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Payment
2021	\$ 81,097	\$ 2,074	\$ 83,171
2022	54,755	1,626	56,381
Total	<u>\$ 135,852</u>	<u>\$ 3,700</u>	<u>\$ 139,552</u>

CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2020

Tax and Revenue Anticipation Notes

On June 27, 2018, the City executed a Tax and Revenue Anticipation Note with Branch Banking and Trust Company (BB&T), not to exceed \$350,000, to finance current obligations of the city. The Notes will be repaid from future tax receipts, mature on June 30, 2020, and shall bear interest at the stated interest rate on maturity at June 30, 2020. The note was repaid in its entirety on September 10, 2020.

On May 21, 2019, the City executed a Tax and Revenue Anticipation Note with Branch Banking and Trust Company (BB&T) for \$136,847. The Note was repaid on July 24, 2019.

Capital Lease – Flex Financial

The City executed a lease with Flex Financial, a division of Stryker Sales Corporation, for the purchase of a new defibrillator at a cost of \$36,975. This lease is secured by the equipment and requires an annual payment of \$12,325 each April. Final payment will be April 2022.

Annual lease payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Payment
2021	\$ 12,325	\$ 1,000	\$ 13,325
2022	12,325	1,000	13,325
Total	<u>\$ 24,650</u>	<u>\$ 2,000</u>	<u>\$ 26,650</u>

NOTE G – INDEBTEDNESS SUMMARY

The changes in long-term indebtedness for 2020 are as follows:

	Balance June 30, 2019	Additions	Retirements	Balance June 30, 2020
First Government Lease Company	\$ 6,373	\$ -	\$ (6,373)	\$ -
First Government Lease Company	30,300	-	(14,412)	15,888
KLC Funding Trust Lease	471,223	-	(25,855)	445,368
Lease One Magnolia Lease	13,123	-	(13,123)	-
US Bank Equipment Finance	42,884	-	(21,026)	21,858
Northern Kentucky Area Development	200,253	-	(17,880)	182,373
2014B Revenue Bonds	839,583	-	(25,000)	814,583
BB&T Lease	447,472	-	(28,578)	418,894
Tax Anticipation Note	350,000	-	-	350,000
Tax Anticipation Note	136,847	-	(136,847)	-
Motorola Lease	156,916	-	(21,064)	135,852
Stryker Lease	-	36,975	(12,325)	24,650
Total Debt	<u>2,694,974</u>	<u>\$ 36,975</u>	<u>\$ (322,483)</u>	2,409,466
Less: current portion of long-term debt	(693,443)			(586,013)
Total Long-Term Debt	<u>\$ 2,001,531</u>			<u>\$ 1,823,453</u>

<p>CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2020</p>

NOTE H – 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 I – COUNTY EMPLOYEES’ RETIREMENT SYSTEMS

Plan description - Employees are covered by CERS (County Employees Retirement System), 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. The City has both Non-Hazardous and Non-Hazardous employees.

Membership in CERS consisted of the following at June 30, 2019:

	Non-hazardous	Hazardous	Total
Active Plan Members	84,632	9,402	94,034
Inactive Plan Members	85,300	2,702	88,002
Retired Members	58,933	8,000	66,933
	<u>228,865</u>	<u>20,104</u>	<u>248,969</u>
	Number of participating employers		<u>1,140</u>

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:

<p>CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2020</p>

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

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of 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.

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.

<p>CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2020</p>

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 and 55 years old, or any age with 20 years of service.
	Reduced retirement	15 years service and 50 years old
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 or any age with 25 years of service.
	Reduced retirement	15 years service and 50 years old
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.

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

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

Contributions

For non-hazardous duty employees, the City contributed 24.06% of which 19.30% was for the pension fund and 4.76% was for the health insurance fund, of the non-hazardous duty covered-employee's compensation during the fiscal year ended June 30, 2020.

For hazardous duty employees, the City contributed 39.58% of which 30.06% was for the pension fund and 9.52% was for the health insurance fund, of the hazardous duty covered-employee's compensation during the fiscal year ended June 30, 2020.

The City made all required contributions for the non-hazardous Plan obligation for the fiscal year in the amount of \$55,824, of which \$44,780 was for the pension fund and \$11,044 was for the health insurance fund.

CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2020

The City made all required contributions for the hazardous Plan obligation for the fiscal year in the amount of \$380,340 of which \$288,858 was for the pension fund and \$91,482 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, 2020, the City reported a liability of \$5,191,816 as its proportionate share of the net pension liability (\$956,002 for the non-hazardous plan and \$4,235,814 for the hazardous duty plan) The net pension liability was measured as of June 30, 2019, 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, 2019, the City's non-hazardous employer allocation proportion was 0.013593% of the total CERS non-hazardous duty employees and the hazardous employer allocation proportion was 0.153344% of the total CERS hazardous duty employees. For the year ended June 30, 2020, the City recognized pension expense of \$846,090 in addition to its \$288,859 pension contribution.

At June 30, 2020, 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 of Resources	Deferred Inflow of Resources	Deferred Outflow of Resources	Deferred Inflow of Resources	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	\$ 24,410	\$ (4,039)	\$ 179,970	\$ -	\$ 204,380	\$ (4,039)
Net difference between projected actual earnings on plan investments	18,351	(33,763)	65,161	(125,109)	-	(75,360)
Change of assumption	96,758	-	411,167	-	507,925	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	(114,820)	236,011	-	236,011	(114,820)
Contributions subsequent to the measurement date	44,780	-	288,858	-	333,638	-
	<u>\$ 184,299</u>	<u>\$ (152,622)</u>	<u>\$ 1,181,167</u>	<u>\$ (125,109)</u>	<u>\$ 1,281,954</u>	<u>\$ (194,219)</u>

The City's contributions subsequent to the measurement date of \$333,638 will be recognized as a reduction of the net pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<p>CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2020</p>

Measurement Year Ending June 30,	Net Deferral
2020	\$ 517,912
2021	176,301
2022	54,972
2023	4,912
2024	-
Thereafter	-
	<u>\$ 754,097</u>

Actuarial Assumptions

The total pension liability as of June 30, 2020 is based on an actuarial valuation date of June 30, 2018, rolled forward to June 30, 2019, and determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Payroll growth	2.00%
Salary increase	3.30-3.55%, minimum, including inflation
Investment rate of return inflation	6.25%, net of pension plan expense, including inflation

The mortality table used for active members is Pub-2010 General Mortality table for the Non-Hazardous System and the Pub-2010 Public Safety Mortality table for the Hazardous System, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. The mortality table used for healthy retired members was a system-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. The mortality table used for the disabled members was Pub-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.

Changes of Assumptions

In June 2019, based on the 2018 Actuarial Experience Study for the Period Ending June 30, 2018, the following actuarial assumptions were updated:

- Annual salary increases were updated.
- Annual rates of retirement, disability, withdrawal, and mortality were updated.
- The percent of disabilities assumed to occur in the line of duty was updated from 0% to 2% for non-hazardous members and 50% for hazardous duty members.

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

CITY OF LUDLOW, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Asset Class	CERS Pensions (Haz & Non-Haz) Target Allocation	Long Term Expected Nominal Return
Combined equity	37.5%	4.55%
Specialty credit / high yield	15.0%	2.60%
Real return (diversified inflation strategies)	15.0%	4.10%
Absolute return (diversified hedge funds)	3.0%	2.97%
Private equity	10.0%	6.65%
Real estate	5.0%	4.85%
Global bonds	13.5%	1.35%
Cash	1.0%	0.20%

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	\$ 1,187,245	\$ 943,084	\$ 738,520
Hazardous	5,295,718	4,235,814	3,366,846
Total	<u>\$ 6,482,963</u>	<u>\$ 5,178,898</u>	<u>\$ 4,105,366</u>

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.

<p>CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2020</p>

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, 2018, the contribution was \$13.38 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, 2018, the contribution was \$13.38 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, 2020</p>

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, 2018, the contribution was \$20.07 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	\$15/month for each year of earned service with a 1.5% increase each July 1. As of July 1, 2018, the contribution was \$20.07 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 was 4.76% of covered-employee payroll for non-hazardous duty employees and 9.52% 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 \$11,044 for non-hazardous duty employees and \$91,482 for hazardous duty employees for the year ended June 30, 2020.

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

At June 30, 2020, the City reported a liability of \$1,362,870 as its proportionate share of the net OPEB liability (\$228,561 for the non-hazardous plan and \$1,134,309 for the hazardous duty plan) The net pension liability was measured as of June 30, 2019, 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

CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2020

of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2019, the City's non-hazardous employer allocation proportion was 0.013589% of the total CERS non-hazardous duty employees and the hazardous employer allocation proportion was 0.153314% of the total CERS hazardous duty employees. For the year ended June 30, 2020, the City recognized OEPB expense of \$117,324 in addition to its \$102,526 OEPB contribution.

For the year ended June 30, 2020, the City recognized an OPEB expense of \$117,324. 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 of Resources	Deferred Inflow of Resources	Deferred Outflow of Resources	Deferred Inflow of Resources	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	\$ -	\$ (68,962)	\$ -	\$ (211,018)	\$ -	\$ (279,980)
Net difference between projected actual earnings on plan investments	-	(10,151)	-	(65,216)		(75,367)
Change of assumption	67,633	(452)	342,783	(2,148)	410,416	(2,600)
Changes in proportion and differences between contributions and proportionate share of contributions	-	(47,995)	73,378	(94)	73,378	(48,089)
Contributions subsequent to the measurement date	15,952	-	92,294	-	108,246	-
	<u>\$ 83,585</u>	<u>\$ (127,560)</u>	<u>\$ 508,455</u>	<u>\$ (278,476)</u>	<u>\$ 592,040</u>	<u>\$ (406,036)</u>

The City's contributions subsequent to the measurement date, \$108,246 will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

Measurement Year Ending June 30,	Net Deferral
2020	\$ 86,384
2021	26,048
2022	(14,661)
2023	(6,461)
2024	(11,285)
Thereafter	(2,267)
	<u>\$ 77,758</u>

<p>CITY OF LUDLOW, KENTUCKY NOTES TO FINANCIAL STATEMENTS June 30, 2020</p>

Actuarial Assumptions

The total OPEB liability as of June 30, 2020 is based on an actuarial valuation date of June 30, 2018, rolled forward to June 30, 2019, and determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Payroll growth rate	2.00%
Salary increases	3.30-3.55%, minimum, including inflation
Investment rate of return	6.25%, net of pension plan expense, including inflation,
Healthcare trend rates (Pre-65):	Initial trend starting at 7.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
Healthcare trend rates (Post-65):	Initial trend starting at 5.00% at January 1, 2020 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.
Mortality:	
Pre-retirement	PUB-2010 General Mortality table for Non-Hazardous System, and the PUB-2010 Public Safety Mortality table for the Hazardous System, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010
Post-retirement (non-disabled)	System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019
Post-retirement (disabled)	PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010

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:

CITY OF LUDLOW, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Asset Class	CERS Health Insurance Target Allocation	Long Term Expected Nominal Return
Combined equity	37.5%	4.55%
Specialty credit / high yield	15.0%	2.60%
Real return (diversified inflation strategies)	15.0%	4.10%
Absolute return (diversified hedge funds)	3.0%	2.97%
Private equity	10.0%	6.65%
Real estate	5.0%	4.85%
Global bonds	13.5%	1.35%
Cash	1.0%	0.20%

Changes of Assumptions

In June 2019, based on the 2018 Actuarial Experience Study for the Period Ending June 30, 2018, the following actuarial assumptions were updated:

- Annual salary increases were updated.
- Annual rates of retirement, disability, withdrawal, and mortality were updated.
- The percent of disabilities assumed to occur in the line of duty was updated from 0% to 2% for non-hazardous members and 50% for hazardous duty members.

In 2019 the following changes were made to the discount rates:

- For the non-hazardous plan, the single discount rate changed from 5.85% to 5.68%

Discount Rate

The discount rate used to measure the total OPEB liability was 5.68% for the non-hazardous plan and 5.69% 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 presents the proportionate share of the net OPEB liability calculated using the discount rates of 5.68% for the non-hazardous plan, as well as what the proportionate share of the net OPEB 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:

CITY OF LUDLOW, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

	Proportionate Share of Net OPEB Liability		
	1.00% Decrease	Current Rate	1.00% Increase
Discount Rate, Non-Hazardous	4.68%	5.68%	6.68%
Net OPEB liability, Non-Haz	\$ 306,178	\$ 228,561	\$ 164,610
Discount Rate, Hazardous	4.69%	5.69%	6.69%
Net OPEB liability, Haz	\$ 1,582,589	\$ 1,134,309	\$ 770,435
Total	\$ 1,888,767	\$ 1,362,870	\$ 935,045

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:

	Proportionate Share of Net OPEB Liability		
	1.00% Decrease	Current Rate	1.00% Increase
Healthcare cost trend rate			
Net OPEB liability, non-hazardous	\$ 169,982	\$ 228,561	\$ 299,595
Net OPEB liability, hazardous	789,269	1,134,309	1,555,238
Total	\$ 959,251	\$ 1,362,870	\$ 1,854,833

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 J – 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 K – 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 City 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 L – ECONOMIC DEPENDENCY

The City's general fund receives 18.3% 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 M – IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

Statement No. 83 – *Certain Asset Retirement Obligations* – Implementation in FY 2020

Statement No. 88 – *Certain Disclosures Related to Debt* – FY 2020

Statement No. 95 – *Postponement of Effective Dates of Authoritative Guidance* – FY 2020

NOTE N – FUTURE ACCOUNTING STANDARDS

Statement No. 84 – *Fiduciary Activities* – Implementation in FY 2021

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

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

Statement No. 90 – *Majority Equity Interests* – Implementation in 2021

Statement No. 91 – *Conduit Debt Obligations* – Implementation in FY 2023

Statement No. 92 – *Omnibus 2020* – FY 2022

Statement No. 93 – *Replacement of Interbank Offered Rates* – FY 2022

Statement No. 94 – *Public-Private and Public-Public Partnerships* – FY 2022

Statement No. 96 – *Subscription-Based Information Technology Arrangements* – FY 2022

Statement No. 97 – *Component Unit Criteria for IRS Section 457 Deferred Comp. Plans* – FY 2022

NOTE O – COVID-19 GLOBAL PANDEMIC

On January 30, 2020, the World Health Organization announced a global health emergency, later classified as a global pandemic, as a result of the COVID-19 outbreak. The outbreak and response have impacted financial and economic markets across the World and within the United States of America. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the City's financial condition, liquidity, and future results of operations. There have been no immediate negative effects.

CITY OF LUDLOW, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

The City's Management and Board are actively monitoring the impact of the global pandemic on its financial condition, liquidity, operations, suppliers, and industry. The 2020-21 fiscal-year budget has been passed to incorporate potential effects of the pandemic on the District's financial condition.

NOTE P – SUBSEQUENT EVENTS

The City's management has evaluated and considered the need to recognize or disclose subsequent events through January 29, 2021, which represents the date that these financial statements were available to be issued. The City had one subsequent to June 30, 2020 through January 29, 2021 to disclose.

The City applied for and has been approved to receive Federal CARES ACT funds passed through the Commonwealth of Kentucky in the amount of \$323,579 as a reimbursement for eligible police and fire salary and benefit costs. These funds will be recognized in the 2020-21 fiscal year.

CITY OF LUDLOW, KENTUCKY
BUDGETARY COMPARISON SCHEDULE- BUDGET TO ACTUAL- GENERAL FUND
For the Year Ended June 30, 2020

	<u>Budgeted Amounts</u>			<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Revisions</u>	<u>Final</u>		
Budgetary fund balance, July 1, 2019	\$ -	\$ -	\$ -	\$ 712,902	\$ 712,902
Resources (inflows)					
General government revenue	3,048,756	-	3,048,756	3,211,471	162,715
Fire property assessment tax/Misc.	526,000	-	526,000	522,463	(3,537)
Capital improvements fund	15,000	-	15,000	79,672	64,672
Proceeds from loans	-	-	-	36,975	36,975
Other	513,840	-	513,840	-	(513,840)
Grant revenue	60,000	-	60,000	-	(60,000)
Amounts available for appropriation	<u>4,163,596</u>	<u>-</u>	<u>4,163,596</u>	<u>4,563,483</u>	<u>399,887</u>
Charges to appropriations (outflows)					
Legislative and administrative	1,326,055	-	1,326,055	1,524,727	(198,672)
Police	1,346,320	-	1,346,320	1,388,860	(42,540)
Public works	252,503	-	252,503	176,254	76,249
Parks and Misc Capital Improvements	15,000	-	15,000	9,996	5,004
Fire/EMS fund	724,626	-	724,626	651,012	73,614
Total charges to appropriations	<u>3,664,504</u>	<u>-</u>	<u>3,664,504</u>	<u>3,750,849</u>	<u>(86,345)</u>
Budgetary fund balance, June 30, 2020	<u>\$ 499,092</u>	<u>\$ -</u>	<u>\$ 499,092</u>	<u>\$ 812,634</u>	<u>\$ 313,542</u>

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, 2020

	Original Budget	Revisions	Final Budget	Actual	Variance Favorable (Unfavorable)
Budgetary fund balance, July 1, 2019	\$ -	\$ -	\$ -	\$ 76,374	\$ 76,374
Resources (inflows):					
Intergovernmental	41,000	-	41,000	133,297	92,297
Interest	-	-	-	-	-
Total resources (inflows)	<u>41,000</u>	<u>-</u>	<u>41,000</u>	<u>133,297</u>	<u>92,297</u>
Amounts available for appropriation	<u>41,000</u>	<u>-</u>	<u>41,000</u>	<u>209,671</u>	<u>168,671</u>
Charges to appropriations (outflows):					
Street repair	-	-	-	84,526	(84,526)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>84,526</u>	<u>(84,526)</u>
Budgetary fund balance, June 30, 2020	<u>\$ 41,000</u>	<u>\$ -</u>	<u>\$ 41,000</u>	<u>\$ 125,145</u>	<u>\$ 84,145</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)

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Proportion of net pension liability	0.01359%	0.01549%	0.01705%	0.01900%	0.17676%	0.019326%				
Proportionate share of the net pension liability (asset)	\$ 956,002	\$ 943,084	\$ 998,106	\$ 935,344	\$ 759,995	\$ 626,994				
Covered payroll in year of measurement	\$ 338,147	\$ 472,179	\$ 465,103	\$ 316,828	\$ 329,233	\$ 391,929				
Share of the net pension liability (asset) as a percentage of its covered payroll	282.72%	199.73%	214.60%	295.22%	230.84%	159.98%				
Plan fiduciary net position as a percentage of total pension liability	50.45%	53.54%	53.30%	55.50%	59.97%	66.80%				

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

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Contractually required contribution	\$ 44,780	\$ 65,367	\$ 68,372	\$ 64,854	\$ 39,350	\$ 41,976	\$ 53,851			
Actual contribution	44,780	65,367	68,372	64,854	39,350	41,976	53,851			
Contribution deficiency (excess)	-	-	-	-	-	-	-			
Covered payroll	\$ 232,021	\$ 403,002	\$ 472,179	\$ 465,103	\$ 316,828	\$ 329,233	\$ 391,929			
Contributions as a percentage of covered payroll	19.30%	16.22%	14.48%	13.94%	12.42%	12.75%	13.74%			

Notes to Required Supplementary Information
for the Year Ended June 30, 2020

The net pension liability as of June 30, 2020, is based on the June 30, 2019, 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 I in the Notes to the Financial Statements.

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

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

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Proportion of net pension liability	0.153344%	0.147748%	0.136720%	0.110100%	0.091799%	0.100286%				
Proportionate share of the net pension liability (asset)	\$ 4,235,814	\$ 3,573,222	\$ 2,945,869	\$ 1,889,310	\$ 1,409,219	\$ 1,205,257				
Covered payroll in year of measurement	\$ 873,623	\$ 800,650	\$ 784,672	\$ 703,574	\$ 497,525	\$ 577,923				
Share of the net pension liability (asset) as a percentage of its covered payroll	484.86%	446.29%	375.43%	268.53%	283.25%	208.55%				
Plan fiduciary net position as a percentage of total pension liability	46.63%	49.26%	53.95%	53.95%	57.52%	63.46%				

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

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Contractually required contribution	\$ 288,858	\$ 233,185	\$ 177,744	\$ 170,352	\$ 142,544	\$ 114,182	\$ 125,814			
Actual contribution	288,858	233,185	177,744	170,352	142,544	114,182	125,814			
Contribution deficiency (excess)	-	-	-	-	-	-	-			
Covered payroll	960,939	937,616	800,650	784,672	703,574	497,525	577,923			
Contributions as a percentage of covered payroll	30.06%	24.87%	22.20%	21.71%	20.26%	22.95%	21.77%			

**Notes to Required Supplementary Information
for the Year Ended June 30, 2020**

The net pension liability as of June 30, 2020, is based on the June 30, 2019, 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 I 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)

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Proportion of net OPEB liability	0.01359%	0.01548%	0.01705%	0.01900%						
Proportionate share of the net OPEB liability (asset)	\$ 228,561	\$ 274,915	\$ 342,804	\$ 935,344						
Covered payroll in year of measurement	\$ 338,147	\$ 472,179	\$ 465,103	\$ 316,828						
Share of the net OPEB liability (asset) as a percentage of its covered payroll	67.59%	58.22%	73.70%	295.22%						
Plan fiduciary net position as a percentage of total OPEB liability	60.44%	57.62%	52.40%	55.50%						

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

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Contractually required contribution	\$ 11,044	\$ 21,198	\$ 22,192	\$ 21,990						
Actual contribution	11,044	21,198	22,192	21,990						
Contribution deficiency (excess)	-	-	-	-						
Covered payroll	232,021	403,002	472,179	465,103						
Contributions as a percentage of covered payroll	4.76%	5.26%	4.70%	4.73%						

Notes to Required Supplementary Information
for the Year Ended June 30, 2020

The net pension liability as of June 30, 2020, is based on the June 30, 2019, 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 I 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)**

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Proportion of net OPEB liability	0.153314%	0.14775%	0.13167%	0.01900%						
Proportionate share of the net OPEB liability (asset)	\$ 1,134,309	\$ 1,053,440	\$ 1,088,495	\$ 935,344						
Covered payroll in year of measurement	\$ 873,623	\$ 800,850	\$ 784,672	\$ 703,574						
Share of the net OPEB liability (asset) as a percentage of its covered payroll	129.84%	131.54%	138.72%	132.94%						
Plan fiduciary net position as a percentage of total OPEB liability	64.44%	64.24%	59.00%	55.50%						

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

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Contractually required contribution	\$ 91,482	\$ 98,169	\$ 74,861	\$ 73,367						
Actual contribution	91,482	98,169	74,861	73,367						
Contribution deficiency (excess)	-	-	-	-						
Covered payroll	\$ 960,939	\$ 937,616	\$ 800,850	\$ 784,672						
Contributions as a percentage of covered payroll	9.52%	10.47%	9.35%	9.35%						

**Notes to Required Supplementary Information
for the Year Ended June 30, 2020**

The net pension liability as of June 30, 2020, is based on the June 30, 2019, 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 I in the Notes to the Financial Statements.

**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, 2020 and the related notes to the financial statements which collectively comprise the City of Ludlow, Kentucky's financial statements, and have issued our report thereon dated January 29, 2021.

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) as a basis for designing 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 financial statements. 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 the following instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*:

Finding 2020-01: The City spent \$86,345 more than the approved budget for the fiscal year in the general fund and \$84,526 more than budgeted in the Municipal Aid Road fund which is in violation of KRS 91A.030.

Purpose of this Report

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

Van Gorder, Walker & Co., Inc.

Van Gorder, Walker & Co., Inc.
Erlanger, Kentucky
January 29, 2021