

CITY OF UNION, KENTUCKY
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
For the Year Ended June 30, 2017

CITY OF UNION, KENTUCKY

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

For the Year Ended June 30, 2017

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CITY OF UNION, KENTUCKY

LIST OF CITY OFFICIALS

For the Year Ended June 30, 2017

Mayor

Larry K. Solomon

Commisioners

Bryan Miller

Jeremy Ramage

John Mefford

Eric Dulaney

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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

-Management's Responsibility for the Financial Statements

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

-Auditor's Responsibility

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

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

-Opinion

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

Other Matters

-Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 4-8, the *Budgetary Comparison Schedule – Budget to Actual: General Fund* on page 30, and the *Multiple Employer, Cost Sharing, Defined Benefit Pension Plan Disclosure* on page 31 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. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

-Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 6, 2018 on our consideration of the City of Union, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Union, Kentucky's internal control over financial reporting and compliance.



Van Gorder, Walker, & Co., Inc.
Erlanger, Kentucky
August 6, 2018

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

Our discussion and analysis of City of Union, Kentucky's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2017. Please read it in conjunction with the City's basic financial statements.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's financially significant funds.

Financial Highlights

As of the close of the current and prior fiscal years, the City's governmental funds reported fund balances as follows:

<u>Funds</u>	<u>FYE 2016 Amount</u>	<u>FYE 2017 Amount</u>	<u>Percentage Increase/ (Decrease)</u>	<u>Increase Incr/(Decr) From FYE 16</u>
General	\$ 944,548	\$ 1,298,804	37.51%	\$ 354,256
Municipal Road Aid	107,521	224,457	108.76%	116,936
Cemetery Fund	59,136	72,728	22.98%	13,592
Total fund balance	<u>\$ 1,111,205</u>	<u>\$ 1,595,989</u>	43.63%	<u>\$ 484,784</u>

The General Fund balance increased as expected. Actual General Fund expenditures were \$189,783 under revenues received. The Municipal Road Aid fund balance increased \$116,936.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-Wide Statement of Net Position and Activities

One of the most important questions asked about the City's finances is, "Is the City as a whole in a better or worse financial position as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. 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. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's *net position* and changes in them. You can think of the City's net position as the difference between assets, what the citizens own, and liabilities, what the citizens owe. This is one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net position are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other factors also, such as changes in the City's property tax, gross receipts, payroll and insurance premium tax base, and the condition of the City's capital assets (roads, buildings, equipment and sidewalks) to assess the *overall health* of the City.

In the Statement of Net Position and the Statement of Activities, we have listed the governmental activities. Most of the City's basic services are reported here, including general government, police, fire & EMS, streets, community center, garage, parks, etc. Gross receipts and payroll license fees, insurance premium taxes, charges for services (waste collection, community center usage, etc.) and property taxes, as well as government grants finance most of these activities.

Fund Financial Statements

The Governmental Fund financial statements provide detailed information about the City's funds. Some funds are required to be established by State Statute or Municipal Ordinance. However, the City Council establishes a few other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for grant funds (Ex. Municipal Aid Fund).

Governmental funds: Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances remaining 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 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 differences between the government wide net position financial statements and the governmental fund financial statements in the reconciliations within the audited financial statements.

Government-Wide Change in Net Position

For the year ended June 30, 2017, net position for all of the changed as follows:

	Governmental Activities
Beginning net position	\$ 1,509,223
Change in net position	270,557
Ending net position	<u>\$ 1,779,780</u>

Government-Wide Statement of Net Position Summary

	Governmental Activities	
	2016	2017
Current assets	\$ 1,553,765	\$ 1,781,160
Capital assets, net	716,384	684,748
Deferred outflows of resources	38,637	81,483
Total assets and deferred outflows of resources	<u>2,308,786</u>	<u>2,547,391</u>
Current liabilities	112,329	25,076
Noncurrent liabilities	687,234	742,535
Deferred inflows of resources	-	-
Total liabilities and deferred inflows of resources	<u>799,563</u>	<u>767,611</u>
Net position	<u>\$ 1,509,223</u>	<u>\$ 1,779,780</u>

To aid in the understanding of the Statement of Activities some additional explanation is given. Of particular interest is the format that is significantly different from a typical Statement of Revenues, Expense, and Changes in Fund Balance. You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a net (expense)/revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the City's taxpayers.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

The following schedule presents a summary of general and special revenues and expenditures for all of the funds for the fiscal year ended June 30, 2017, and the amount and percentage of increases and decreases in relation to the prior year.

Revenues	FYE 2016 Amount	FYE 2017 Amount	Percentage Incr(Decr)	Increase (Decrease) From FYE 16
Property taxes	\$ 1,127,458	\$ 1,112,105	-1.4%	\$ (15,353)
Franchise fees	19,807	20,166	1.8%	359
Telecommunications taxes	24,209	24,207	0.0%	(2)
Assessments	20,777	46,616	124.4%	25,839
Licenses and permits	4,527	4,650	2.7%	123
Intergovernmental	102,903	117,330	14.0%	14,427
Charges for services	8,000	50,593	532.4%	42,593
Investment income	959	986	2.8%	27
Miscellaneous	20,596	22,853	11.0%	2,257
Total Revenues	<u>\$ 1,329,236</u>	<u>\$ 1,399,506</u>	5.3%	<u>\$ 70,270</u>

Assessments increased due to good collection on past balances. Intergovernmental increased due to an increase in Municipal aid income from the state. Charges for service increased due to an increase in sales from the Cemetery Fund. All other revenues were consistent with the prior year.

Expenditures	FYE 2016 Amount	FYE 2017 Amount	Percentage Incr(Decr)	Increase (Decrease) From FYE 16
General Government	\$ 561,627	\$ 594,040	5.8%	\$ 32,413
Public Works	300,081	146,016	-51.3%	(154,065)
Waste Disposal	282,762	282,762	0.0%	-
Cemetery	9,200	13,708	49.0%	4,508
Capital outlay	23,547	-	-100.0%	(23,547)
Debt service	42,807	42,669	-0.3%	(138)
Total Expenditures	<u>\$ 1,220,024</u>	<u>\$ 1,079,195</u>	-11.5%	<u>\$ (140,829)</u>

Public Works decreased due to less Road construction. There were no Capital expenditures in fiscal year 2017.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The capital assets were reported for the fiscal years ended as follows:

	Governmental Activities	
	2016	2017
Construction in progress	\$ -	\$ -
Land	17,000	17,000
Buildings	586,246	586,246
Equipment	21,717	21,717
Infrastructure	430,979	430,979
	<u>\$ 1,055,942</u>	<u>\$ 1,055,942</u>

Debt

The City has \$480,745 in outstanding debt at June 30, 2017, a 4% decrease from 2016 as detailed below:

	Governmental Activities	
	2016	2017
KIA Sewer Loan	\$ 199,402	\$ 188,714
KLC Building Lease	302,723	292,031
Totals	<u>\$ 502,125</u>	<u>\$ 480,745</u>

GENERAL BUDGETARY HIGHLIGHTS

Actual revenues were more than budgeted amounts by \$95,506 across all funds, mainly due to increases in intergovernmental revenues and fines, forfeitures and penalties revenues. Actual expenditures came in right on budget, spending \$8,705 across all funds less than budget. As a result, the City ended the year with an increase of \$189,783 in the fund balance of the General Fund and an increase of \$320,311 across all funds.

GASB 68 PENSION LIABILITY RECOGNITION

As of June 30, 2017, the City is required, by Governmental Accounting Standards Board Statement No. 68, 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 liability, \$218,943, the deferred outflow of resources, \$81,843, and the deferred inflow of resources, \$0, on the Statement of Net Position at June 30, 2017 are a function of this required reporting. Detailed information on this pension recognition can be found in Note 8 in the Notes to the Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City's elected officials consider many factors when setting the fiscal year 2018 budget. Some of the factors are the local economy, expected grant monies and anticipated tax revenues.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, 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 questions about this report or need additional financial information, contact the City's Administrator, David Plummer at (859) 384-1511 or at the city building at 1843 Mt. Zion Rd, Union, KY 41091.

CITY OF UNION, KENTUCKY STATEMENT OF NET POSITION June 30, 2017
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	Governmental Activities
Assets	
Current assets	
Cash and cash equivalents	\$ 1,598,969
Receivables	
Property taxes	2,525
Assessments	179,666
Total current assets	<u>1,781,160</u>
Noncurrent assets	
Capital assets	
Land	17,000
Capital assets being depreciated	1,038,942
Less: accumulated depreciation	<u>(371,194)</u>
Net capital assets	<u>684,748</u>
Total assets	<u><u>2,465,908</u></u>
Deferred outflows of resources	
Deferred outflows related to pension	81,483
Total deferred outflows of resources	<u>81,483</u>
Total assets and deferred outflows of resources	<u><u>2,547,391</u></u>
Liabilities	
Current liabilities	
Accounts payable	-
Accrued liabilities	2,980
Current portion of notes payable	22,096
Total current liabilities	<u>25,076</u>
Noncurrent liabilities	
Compensated Absence	17,249
Swap Agreement	47,694
Notes payable	458,649
Net pension liability	218,943
Total noncurrent liabilities	<u>742,535</u>
Total liabilities	<u>767,611</u>
Deferred inflows of resources	
Deferred inflows related to pension	-
Total liabilities and deferred inflows of resources	<u>767,611</u>
Net position	
Net investment in capital assets	204,003
Restricted	297,185
Unrestricted	<u>1,278,592</u>
Total net position	<u><u>\$ 1,779,780</u></u>

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

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

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities					
Administration	\$ 660,227	\$ 23,293	\$ 611	\$ -	\$ (636,323)
Public Works	146,016	-	116,719	-	(29,297)
Waste collection	282,762	-	-	-	(282,762)
Cemetery	13,708	27,300	-	-	13,592
Interest Expense	21,289	-	-	-	(21,289)
Total governmental activities	\$1,124,002	\$ 50,593	\$ 117,330	\$ -	(956,079)
General revenues					
Taxes					
Property taxes					
					1,112,105
Franchise fees					
					20,166
Telecommunications taxes					
					24,207
Assessments					
					46,616
Licenses and permits					
					4,650
Investment income					
					986
Miscellaneous					
					17,906
Total general revenues					1,226,636
Change in net position					270,557
Net position, beginning of year					1,509,223
Net position, end of year					\$ 1,779,780

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

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

	2017			(Memo Only)
	General Fund	Other Governmental Funds	Total Governmental Funds	2016 Totals
Assets				
Cash and cash equivalents	\$ 1,301,784	\$ 297,185	\$ 1,598,969	\$ 1,366,627
Receivables				
Taxes	2,525	-	2,525	2,525
Assessments	179,666	-	179,666	179,666
Other assets	-	-	-	-
Due from other funds	-	-	-	-
Total assets	<u>\$ 1,483,975</u>	<u>\$ 297,185</u>	<u>\$ 1,781,160</u>	<u>\$ 1,548,818</u>
Liabilities and fund balances				
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ 89,972
Accrued liabilities	2,980	-	2,980	977
Deferred revenue	182,191	-	182,191	182,191
Due to other funds	-	-	-	-
Total liabilities	<u>185,171</u>	<u>-</u>	<u>185,171</u>	<u>273,140</u>
Fund balances				
Unspendable	-	-	-	-
Restricted	-	297,185	297,185	181,968
Committed	-	-	-	-
Assigned	-	-	-	125,164
Unassigned	1,298,804	-	1,298,804	968,546
Total fund balances	<u>1,298,804</u>	<u>297,185</u>	<u>1,595,989</u>	<u>1,275,678</u>
Total liabilities and fund balances	<u>\$ 1,483,975</u>	<u>\$ 297,185</u>	<u>\$ 1,781,160</u>	<u>\$ 1,548,818</u>

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

CITY OF UNION, KENTUCKY RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION June 30, 2017
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Total fund balance for governmental funds	\$ 1,595,989
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets of \$1,055,942 less accumulated depreciation of (\$371,194), used in governmental activities are not financial resources and, therefore, are not reported in the funds.	684,748
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Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.

Deferred property tax and assessment revenues	182,191
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Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, not reportable in the funds.

Deferred outflows of resources	81,483
Deferred inflows of resources	-

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.

Compensated Absences	(17,249)
Net pension liability	(218,943)
Swap Agreement	(47,694)
Notes payable	<u>(480,745)</u>

Net position of governmental activities	<u><u>\$ 1,779,780</u></u>
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The accompanying notes are an integral part of the financial statements.

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

	2017			(Memo Only)
	General	Other	Total	2016
	Fund	Governmental	Governmental	Totals
		Funds	Funds	
Revenues				
Property taxes	\$ 1,112,105	\$ -	\$ 1,112,105	\$ 1,127,458
Franchise fees	20,166	-	20,166	19,807
Telecommunications taxes	24,207	-	24,207	24,209
Assessments	46,616	-	46,616	20,777
Licenses and permits	4,650	-	4,650	4,527
Intergovernmental	611	116,719	117,330	102,903
Charges for services	23,293	27,300	50,593	8,000
Investment income	767	219	986	959
Miscellaneous	22,853	-	22,853	20,596
Total revenues	<u>1,255,268</u>	<u>144,238</u>	<u>1,399,506</u>	<u>1,329,236</u>
Expenditures				
Current Expenditures				
General Government	594,040	-	594,040	561,627
Public Works	146,014	2	146,016	300,081
Waste Disposal	282,762	-	282,762	282,762
Cemetery	-	13,708	13,708	9,200
Capital outlay	-	-	-	23,547
Debt service	42,669	-	42,669	42,807
Total expenditures	<u>1,065,485</u>	<u>13,710</u>	<u>1,079,195</u>	<u>1,220,024</u>
Excess (deficit) of revenues over expenditures	<u>189,783</u>	<u>130,528</u>	<u>320,311</u>	<u>109,212</u>
Other financing sources (uses)				
Net change in fund balances	189,783	130,528	320,311	109,212
Fund balances, beginning of year	1,109,021	166,657	1,275,678	1,166,466
Fund balances, end of year	<u>\$ 1,298,804</u>	<u>\$ 297,185</u>	<u>\$ 1,595,989</u>	<u>\$ 1,275,678</u>

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

<p>CITY OF UNION, KENTUCKY</p> <p>RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES</p> <p>AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS</p> <p>TO THE STATEMENT OF ACTIVITIES</p> <p>For the Year Ended June 30, 2017</p>

Net change in fund balances - total governmental funds	\$ 320,311
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures because they use current financial resources. However, in the statement of activities, the cost of those resources is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital asset purchases capitalized	\$ -	
Contributed capital received	-	
Depreciation expense	<u>(31,636)</u>	(31,636)

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.

Cost of benefits earned	(34,551)
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Lease proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the statement of net position.	-
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Repayment of notes payable principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	<u>16,433</u>
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Change in net position of governmental activities	<u><u>\$ 270,557</u></u>
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The accompanying notes are an integral part of the financial statements.

CITY OF UNION, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS June 30, 2017
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NOTE 1 – ACCOUNTING POLICIES

Kentucky Revised Statutes and Ordinances of the City Council of the City of Union, Kentucky (City) designate the purpose, function and restrictions of the various funds.

A. The Reporting Entity

The City operates under a City Council government comprised of the Mayor and four council members. The financial statements of the City include all of the funds for which the Mayor and City Council are financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards was determined on the basis of the City's ability to significantly influence operations, select the governing authority, participate in fiscal management, and the scope of public services. The City has no component units or entities for which the government is considered to be financially accountable.

B. Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-Wide Financial Statements - The statement of net position and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government.

The statement of net position presents the financial condition of the governmental activities of the City at year end. The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function.

Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements - During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to determine legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds, if any, are presented in a single column.

C. Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

CITY OF UNION, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS June 30, 2017
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Governmental Funds - Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or may not be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets, deferred outflows, liabilities, and deferred inflows is reported as fund balance. The following are the City's major governmental funds:

- **General Fund** - The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Kentucky.
- **Municipal Road Aid Fund** - The municipal road aid fund accounts for the allocation of funds from the Commonwealth of Kentucky as provided in KRS 174 for design, right-of-way acquisitions, utilities, construction, and other municipal road aid expenditures.
- **Coal Fund** - The coal fund accounts for the allocation of funds from the Commonwealth of Kentucky. The coal fund balance is available for any purpose provided it is expended or transferred according to the general laws of Kentucky.
- **Cemetery Fund** - This fund accounts for the operations of maintain the Union Rice cemetery.

D. Measurement Focus

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets, deferred outflows, liabilities, and deferred inflows associated with the operation of the City are included on the statement of net position. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net position.

Fund Financial Statements - All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows and current liabilities and deferred inflows are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (e.g. revenues and other financing sources) and uses (e.g. expenditures and other financing uses) of current financial resources. This approach differs from the manner in which governmental activities of the government - wide financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide financial statements and the financial statements for governmental funds.

E. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows and deferred outflows, and in the presentation of expenses versus expenditures.

CITY OF UNION, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS June 30, 2017
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Revenues - Exchange and Nonexchange Transactions - Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within thirty days of year end.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, and grants. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, for which the City must provide local resources to be used for a specified purpose, and expenditure requirements, for which the resources are provided to the City on a reimbursement basis.

On the modified accrual basis, revenue from non-exchange transactions must also be available before it is recognized. Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: state-levied locally shared taxes.

Deferred Inflows of Resources and Deferred Outflows of Resources - A deferred inflow of resources is an acquisition of net position by the City that is applicable to a future reporting period. A deferred outflow of resources is a consumption of net position by the City that is applicable to a future operating period.

Taxes and assessments not received within the available period are recorded as deferred inflows in the governmental fund financial statements.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on the decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

F. Budgetary Data

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

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

CITY OF UNION, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2017

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 City Council.

G. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with an initial maturity date of ninety days or less.

H. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements. The City's infrastructure consists of sidewalks, streets, and traffic signals. Infrastructure acquired prior to the implementation of GASB Statement No. 34 has been reported.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and disposals during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$1,000 with the exception of computers and real property for which there is no threshold. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value to the asset or materially extend an asset's life are not.

All reported capital assets are depreciated except for land. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful:

<u>Description</u>	<u>Estimated Lives</u>
Buildings	40 years
Infrastructure	25 years
General equipment	5-10 years

I. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported on the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences, and retirement incentives that will be paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds and capital lease obligations are recognized as a liability on the governmental fund financial statements when due.

CITY OF UNION, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS June 30, 2017
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J. Restricted Assets

Certain cash accounts have been classified as restricted assets to indicate that they have been earmarked for a specific use.

K. Inter-fund Balances

On the fund financial statements, unpaid amounts for inter-fund services are reported as "due from/to other funds". These amounts are eliminated in the statement of net position.

L. Inter-fund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as inter-fund transfers. Inter-fund transfers are reported as other financing sources/uses in governmental. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

M. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Non-spendable - The non-spendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.

Restricted - Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance) of City Council (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of City Council.

Unassigned - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from

CITY OF UNION, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS June 30, 2017
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overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The City applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within restricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any unrestricted fund balance classifications could be used.

N. Use of Estimates

The preparation of financial statements in conformity GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results could differ from those estimates.

O. Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through enabling legislation or through external restrictions imposed by creditors, grantors, laws, or regulations of other governments. Net position restricted for other purposes consists primarily of programs to enhance the security of persons and property.

The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year.

NOTE 2 – PROPERTY TAXES

The City levies property taxes on qualifying property. Property taxes are the City's primary source of revenue. Property taxes attached as an enforceable lien of property as of October 15 and are payable December 31. Property tax revenues are recognized when they become levied. No allowance for uncollectible receivable is considered necessary. On January 1, the bill becomes delinquent and penalties and interest may be assessed by the City. A lien may be placed on the property on January 1. As of June 30, 2017, \$2,525 was recorded as property taxes receivable. The receivable balance that was not collected within thirty days of the end of the fiscal year was recognized as deferred revenue in the amount of \$2,525.

CITY OF UNION, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS June 30, 2017
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NOTE 3 – RECEIVABLES

Receivables at year end consisted of property taxes, sewer assessments, and street-light assessments. A summary of the receivable balance as reported on the statement of net position is as follows:

Taxes receivable	
Property taxes	<u>\$ 2,525</u>
Assessments receivable	
Sewer assessment	168,666
Street light assessment	<u>11,000</u>
Total Assesements	<u>\$ 179,666</u>

NOTE 4 – CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended June 30, 2017:

Asset type	Balance at June 30, 2016	Additions	Deletions	Balance at June 30, 2017
Land	\$ 17,000	\$ -	\$ -	\$ 17,000
Buildings	586,246	-	-	586,246
Furniture and equipment	21,717	-	-	21,717
Infrastructure	<u>430,979</u>	<u>-</u>	<u>-</u>	<u>430,979</u>
Total capital assets	<u>1,055,942</u>	<u>-</u>	<u>-</u>	<u>1,055,942</u>
Less: accumulated depreciation				
Buildings	185,314	14,137	-	199,451
Furniture and equipment	19,202	280	-	19,482
Infrastructure	<u>135,042</u>	<u>17,219</u>	<u>-</u>	<u>152,261</u>
Total accumulated depreciation	<u>339,558</u>	<u>31,636</u>	<u>-</u>	<u>371,194</u>
Capital assets, net	<u>\$ 716,384</u>	<u>\$ (31,636)</u>	<u>\$ -</u>	<u>\$ 684,748</u>

In fiscal year 2017, depreciation expense was charged to governmental functions as follows:

General government: \$ 31,636

NOTE 5 – COMPENSATED ABSENCES

City employees earn vacation time based on length of service. Employees cannot opt for cash in lieu of time off. Employees also accrue sick days based on length of service. Sick days are not paid out at retirement. At June 30, 2017, accrued vacation pay is \$17,249.

CITY OF UNION, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS June 30, 2017
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NOTE 6 – LONG-TERM OBLIGATIONS

A schedule of changes in long-term obligations of the City during the current year is summarized below:

	Balance at June 30, 2016	Additions	Deletions	Balance at June 30, 2017	Current Portion
General obligations:					
KIA sewer loan	\$ 199,402	\$ -	\$ 10,684	\$ 188,718	\$ 11,013
KLC building lease	302,723	-	10,692	292,031	11,083
Total general obligations	502,125	-	21,376	480,749	22,096
Compensated absences	17,249	-	-	17,249	-
Swap agreement	47,694	-	-	47,694	-
Total obligations	<u>\$ 567,068</u>	<u>\$ -</u>	<u>\$ 21,376</u>	<u>\$ 545,692</u>	<u>\$ 22,096</u>

KIA Sewer Loan – In March 2010, the City borrowed \$248,294 through the Kentucky Infrastructure Authority to be repaid over 20 years at a fixed rate of 3.00%. The proceeds were used to fund the sewer tap fees and assessments of the City's taxpayers. Principal and interest paid in the fiscal year was \$10,688 and \$6,225 respectively.

KLC building lease – In June 2008, the City borrowed \$375,000 through the Kentucky League of Cities, through a Master Bond Pool, to be repaid over 28 years at a fixed rate of 3.95%. The proceeds were used to purchase a building, to be used by the City's public works department. Principal and interest paid in the fiscal year was \$10,692 and \$15,071 respectively.

Principal and interest requirements to retire the City's long-term obligations outstanding at year end are as follows:

Year Ending June 30:	KIA Sewer Loan		KLC Building Lease		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 11,013	\$ 5,878	\$ 11,083	\$ 14,582	\$ 22,096	\$ 20,460
2019	11,348	5,520	11,507	14,050	22,855	19,570
2020	11,694	5,152	11,928	13,522	23,622	18,674
2021	12,049	4,773	12,414	19,213	24,463	23,986
2022	12,416	4,108	12,873	12,338	25,289	16,446
2023-2027	67,979	15,752	72,121	51,972	140,100	67,724
2028-2032	62,215	4,284	86,961	33,372	149,176	37,656
2033-2036	-	-	73,144	10,354	73,144	10,354
Total	<u>\$ 188,714</u>	<u>\$ 45,467</u>	<u>\$ 292,031</u>	<u>\$ 169,403</u>	<u>\$ 480,745</u>	<u>\$ 214,870</u>

CITY OF UNION, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS June 30, 2017
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NOTE 7 – INTEREST RATE SWAP AGREEMENT

The City has entered into an interest rate swap agreement to manage its exposure to fluctuations in interest rates. The swap agreement involves the exchange of variable and fixed rate interest payments between two parties based on common notional principal amounts and maturity dates. Pay-fixed rate swaps effectively convert LIBOR indexed variable rate instruments into fixed rate obligations. The notional amounts and timing of interest payments in the agreement match the related liabilities. The notional amounts of the swap agreement represent amounts used to calculate the exchange of cash flows and are not assets or liabilities of the City. Any market risk or opportunity associated with this swap agreement is offset by the opposite market impact on the related debt. The City's credit risk related to the swap is considered low because the swap agreements are with creditworthy financial institutions. The interest payments under these agreements are settled on a net basis and classified into expense when occurred.

The following table sets forth the City's interest rate swap agreement at June 30, 2017:

	Notational Amount	Termination	Fair Value
Pay-fixed interest rate swap	<u>\$ 322,897</u>	1/1/2036	<u>\$ (47,694)</u>

NOTE 8 – COUNTY EMPLOYEES' RETIREMENT SYSTEM

The City's eligible employees are covered by the County Employees Retirement System.

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

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

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

CITY OF UNION, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS June 30, 2017
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Non-Hazardous Duty Employees

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

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' 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 of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the 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 of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

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

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

Contributions

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

The City made all required contributions for the non-hazardous Plan pension obligation for the fiscal year ended June 30, 2017 in the amount of \$22,045 of which \$16,463 was for the pension fund and \$5,582 was for the health insurance fund.

CITY OF UNION, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS June 30, 2017
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Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the City reported a liability for its proportionate share of the net pension liability for CERS – Non-Hazardous employees of \$218,943.

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The City's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2016, the City's proportion was .000445% percent.

For the year ended June 30, 2017, the City recognized pension expense of \$34,551 related to CERS. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Non-Hazardous	
	Deferred Outflow	Deferred Inflow
Differences between expected and actual experience	\$ 956	\$ -
Net difference between projected and actual earnings on plan investments	20,583	-
Change of assumptions	11,598	-
Changes in proportion and differences between contributions and proportionate share of contributions	31,883	-
Contributions subsequent to the measurement date	16,463	-
Total	<u>\$ 81,483</u>	<u>\$ -</u>

CITY OF UNION, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS June 30, 2017
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The City's contributions subsequent to the measurement date of \$16,463 will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30,	Net Deferral
2018	\$ 21,659
2019	17,585
2020	17,371
2021	8,405
	<u>\$ 65,020</u>

Actuarial Methods and Assumptions

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

Valuation Date	June 30, 2016
Experience Study	July 1, 2008 – June 30, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	27 years
Asset Valuation Method	5-year smoothed market
Inflation	3.25%
Salary Increase	4.0%, average, including inflation
Investment Rate of Return	7.5% for all but 6.75% for KERS (Non-Hazardous), net of plan investment expense, including inflation

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

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for KRS. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated December 3, 2015. Several factors are considered in evaluating the long-term rate of return assumption including long term historical

CITY OF UNION, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS June 30, 2017
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data, estimates inherent in current market data, and a log- normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

Changes of Assumptions

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

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

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

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

CITY OF UNION, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS June 30, 2017
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Discount Rate

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

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

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

	Discount Rate	City's Proportionate Share of Net Pension Liability
		Non-Hazardous
1% decrease	6.5%	\$ 272,839
Current discount rate	7.5%	218,943
1% increase	8.5%	172,744

Plan Fiduciary Net Position

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

NOTE 9 – CONTINGENCIES

The City is party to various legal proceedings which normally occur in governmental operations. It is neither possible to determine the outcome of these proceedings nor possible to estimate the effects adverse decisions may have on the future expenditures or revenue sources of the City. In the opinion of City management, these legal proceedings are not likely to have a material adverse impact on the accompanying financial statements. Therefore, no provision for any liability that may result upon adjudication of this and similar cases has been made in the accompanying financial statements.

NOTE 10 – 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. The City has obtained insurance coverage through a commercial insurance company. In addition, the City has effectively managed risk through various employee education and prevention programs. All risk general liability management activities are accounted for in the General Fund. Expenditures and claims are recognized when probable that a loss has occurred and the amount of loss can be reasonably estimated.

CITY OF UNION, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS June 30, 2017
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Management estimates that the amount of actual or potential claims against the City as of June 30, 2017 will not materially affect the financial condition of the City. Therefore, the General Fund contains no provision for estimated claims. No claim has exceeded insurance coverage amounts in the past three fiscal years.

NOTE 11 – IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

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

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

Statement No. 77 – *Tax Abatement Disclosures*

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

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

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

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

NOTE 12 – FUTURE ACCOUNTING STANDARDS

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

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

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

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

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

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

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

NOTE 11 – SUBSEQUENT EVENTS

The City evaluated subsequent events for potential recognition and disclosure through August 6, 2018, the date the financial statements were available to be issued. The City had no events subsequent to June 30, 2017 through August 6, 2018 to disclose.

CITY OF UNION, KENTUCKY BUDGETARY COMPARISON SCHEDULE BUDGET AND ACTUAL - GENERAL FUND For the Year Ended June 30, 2017
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	Budgeted Amounts			Actual Amounts	Variance Favorable (Unfavorable)
	Original	Amendments	Final		
Budgetary fund balance, July 1	\$ 1,109,021	\$ -	\$ 1,109,021	\$ 1,109,021	-
Resources (inflows)					
Estimated revenues	1,199,000	-	1,199,000	1,255,268	56,268
Transfer of Funds	-	-	-	-	-
Amounts available for appropriation	<u>2,308,021</u>	<u>-</u>	<u>2,308,021</u>	<u>2,364,289</u>	<u>56,268</u>
Charges to appropriations (outflows)					
General government	600,000	-	600,000	594,040	5,960
Public Works	160,000	-	160,000	146,014	13,986
Waste Disposal	285,000	-	285,000	282,762	2,238
Debt Service					
Kia Loan	16,900	-	16,900	16,913	(13)
Building Mortgage	26,000	-	26,000	25,756	244
Total charges to appropriations	<u>1,087,900</u>	<u>-</u>	<u>1,087,900</u>	<u>1,065,485</u>	<u>22,415</u>
Transfers in (out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Budgetary fund balance, June 30	<u>\$ 1,220,121</u>	<u>\$ -</u>	<u>\$ 1,220,121</u>	<u>\$ 1,298,804</u>	<u>\$ 78,683</u>

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

CITY OF UNION, KY
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)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Proportion of net pension liability	0.004450%	0.003290%	0.003231%							
Proportionate share of the net pension liability (asset)	\$ 218,943	\$ 141,546	\$ 118,613							
Covered employee payroll in year of measurement	101,723	77,090	101,921							
Share of the net pension liability (asset) as a percentage of its covered employee payroll	215.23%	183.61%	116.38%							
Plan fiduciary net position as a percentage of total pension liability	55.50%	59.97%	66.80%							

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

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually required contribution	\$ 16,463	\$ 12,634	\$ 9,829	\$ 14,004						
Actual contribution	16,463	12,634	9,829	14,004						
Contribution deficiency (excess)			-	-						
Covered employee payroll	\$ 118,015	\$ 101,723	\$ 77,090	\$ 101,921						
Contributions as a percentage of covered employee payroll	13.95%	12.42%	12.75%	13.74%						

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

The net pension liability as of June 30, 2017, is based on the June 30, 2016, actuarial valuation. The changes to the elements of the pension expense, i.e. the difference between expected and actual experience, net difference between projected and actual earnings on plan investments, changes in assumptions, and the changes in proportion and differences between City's contributions and proportionate share of contributions are detailed in NOTE 8 in the Notes to the Financial Statements.

CITY OF UNION, KENTUCKY COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS June 30, 2017

	Municipal Road Aid Fund	Cemetery Fund	Total Non-Major Funds
Assets			
Cash and cash equivalents	\$ 224,457	\$ 72,728	\$ 297,185
Accounts receivable			
Intergovernmental	-	-	-
Total assets	<u>\$ 224,457</u>	<u>\$ 72,728</u>	<u>\$ 297,185</u>
Liabilities and fund balances			
Liabilities			
Accounts payable	\$ -	\$ -	\$ -
Due to other funds	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances			
Restricted	224,457	72,728	297,185
Assigned	-	-	-
Unassigned	-	-	-
Total fund balances	<u>224,457</u>	<u>72,728</u>	<u>297,185</u>
Total liabilities and fund balances	<u>\$ 224,457</u>	<u>\$ 72,728</u>	<u>\$ 297,185</u>

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

CITY OF UNION, KENTUCKY COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - NON-MAJOR GOVERNMENTAL FUNDS For the Year Ended June 30, 2017

	Municipal Road Aid Fund	Cemetery Fund	Total Non-Major Funds
Revenues			
Intergovernmental revenue	\$ 116,719	\$ -	\$ 116,719
Charges for services	-	27,300	27,300
Interest	219	-	219
Total revenues	<u>116,938</u>	<u>27,300</u>	<u>144,238</u>
Expenditures			
Streets	2	-	2
Community Center	-	13,708	13,708
Total expenditures	<u>2</u>	<u>13,708</u>	<u>13,710</u>
Excess of revenues over expenditures	116,936	13,592	130,528
Other financing sources (uses)			
Operating transfers out	-	-	-
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	116,936	13,592	130,528
Fund balances, beginning of year	107,521	59,136	166,657
Fund balances, end of year	<u>\$ 224,457</u>	<u>\$ 72,728</u>	<u>\$ 297,185</u>

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

CITY OF UNION, KENTUCKY BUDGETARY COMPARISON SCHEDULE BUDGET AND ACTUAL - MUNICIPAL ROAD AID FUND For the Year Ended June 30, 2017

	Budgeted Amounts			Actual Amounts	Variance Favorable (Unfavorable)
	Original	Amendments	Final		
Budgetary fund balance, July 1	\$ 107,521	\$ -	\$ 107,521	\$ 107,521	\$ -
Resources (inflows):					
Estimated revenues	100,000	-	100,000	116,719	16,719
Interest	-	-	-	219	219
Proceeds of long term debt	-	-	-	-	-
Amounts available for appropriation	<u>207,521</u>	<u>-</u>	<u>207,521</u>	<u>224,459</u>	<u>16,938</u>
Charges to appropriations (outflows):					
Streets	<u>-</u>	<u>-</u>	<u>-</u>	<u>2</u>	<u>(2)</u>
Total charges to appropriations	<u>-</u>	<u>-</u>	<u>-</u>	<u>2</u>	<u>(2)</u>
Transfers to (from) fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Budgetary fund balance, June 30	<u>\$ 207,521</u>	<u>\$ -</u>	<u>\$ 207,521</u>	<u>\$ 224,457</u>	<u>\$ 16,936</u>

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

CITY OF UNION, KENTUCKY BUDGETARY COMPARISON SCHEDULE BUDGET AND ACTUAL - CEMETERY FUND For the Year Ended June 30, 2017

	Budgeted Amounts			Actual	Variance
	Original	Amendments	Final	Amounts	Favorable (Unfavorable)
Budgetary fund balance, July 1	\$ 59,136	\$ -	\$ 59,136	\$ 59,136	\$ -
Resources (inflows):					
Plot Sales income	5,000	-	5,000	27,300	22,300
Transfer to (from) fund	-	-	-	-	-
Amounts available for appropriation	<u>64,136</u>	<u>-</u>	<u>64,136</u>	<u>86,436</u>	<u>22,300</u>
Charges to appropriations (outflows):					
Cemetery Expenses	-	-	-	13,708	(13,708)
Total charges to appropriations	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,708</u>	<u>(13,708)</u>
Budgetary fund balance, June 30	<u>\$ 64,136</u>	<u>\$ -</u>	<u>\$ 64,136</u>	<u>\$ 72,728</u>	<u>\$ 8,592</u>

The accompanying notes are an integral part of 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 Union, 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 Union, Kentucky as of June 30, 2017 and the related notes to the financial statements which collectively comprise the City of Union, Kentucky's financial statements, and have issued our report thereon dated August 6, 2018.

Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered City of Union, Kentucky's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Union, Kentucky's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Union, 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 Union, Kentucky's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Van Gorder, Walker & Co., Inc.

Van Gorder, Walker, & Co., Inc.
Erlanger, Kentucky
August 6, 2018