

CITY OF UNION, KENTUCKY
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
For the Year Ended June 30, 2022

CITY OF UNION, KENTUCKY

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

For the Year Ended June 30, 2022

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CITY OF UNION, KENTUCKY

LIST OF CITY OFFICIALS

For the Year Ended June 30, 2022

Mayor

Larry K. Solomon

Commissioners

Bryan Garner

Jeremy Ramage

John Mefford

Eric Dulaney

INDEPENDENT AUDITOR'S REPORT

**To the Honorable Mayor and
Commissioners of the
City of Union, Kentucky**

Opinions

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, 2022, and the related notes to the financial statements, which collectively comprise the City of Union, Kentucky's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the City of Union, Kentucky as of June 30, 2022, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with accounting standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Union, Kentucky and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Union, Kentucky's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City of Union, Kentucky's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Union, Kentucky's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, major fund budgetary comparison schedules, and *Multiple Employer, Cost Sharing, Defined Benefit Pension and OPEB Plan* disclosures be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Union, Kentucky's basic financial statements. The municipal road aid fund and cemetery fund budgetary comparison schedules 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the municipal road aid fund and cemetery fund budgetary comparison schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2023, 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 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 Union, Kentucky'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 City of Union, Kentucky's internal control over financial reporting and compliance.

Chamberlin Owen & Co., Inc.

Chamberlin Owen, & Co., Inc.

Erlanger, Kentucky

April 7, 2023

**CITY OF UNION, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

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, 2022. 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:

| Funds | FYE 2022 Amount | FYE 2021 Amount | Percentage Increase/ (Decrease) | Increase Incr/(Decr) From FYE 21 |
|--------------------|---------------------|---------------------|---------------------------------------|--|
| General | \$ 1,677,699 | \$ 1,704,510 | -1.57% | \$ (26,811) |
| Municipal Road Aid | 173,479 | 63,249 | 174.28% | \$ 110,230 |
| Cemetery Fund | 51,091 | 67,851 | -24.70% | \$ (16,760) |
| Total fund balance | <u>\$ 1,902,269</u> | <u>\$ 1,835,610</u> | 3.63% | <u>\$ 66,659</u> |

The General Fund balance decreased due to a decrease in revenues and an increase in Public Works expenses compared to 2021. Actual General Fund expenditures were \$4.1M above revenues received due to the purchase of development property in the City. To cover this difference, the City issued a Bond Anticipation Note for \$4.1M. The Municipal Road Aid fund increased due to reduced road construction expenses during the year.

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, public works, waste disposal, and cemetery. Property taxes, franchise fees, and telecommunication 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 Commission 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 Road 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, 2022, net position changed as follows:

| | Governmental Activities |
|------------------------|----------------------------|
| Beginning net position | \$ 1,893,130 |
| Change in net position | <u>(6,753)</u> |
| Ending net position | <u><u>\$ 1,886,377</u></u> |

Government-Wide Statement of Net Position Summary

| | Governmental Activities | |
|--|----------------------------|---------------------|
| | 2022 | 2021 |
| Current assets | \$ 2,978,222 | \$ 1,837,342 |
| Capital assets, net depreciation | 4,591,614 | 541,113 |
| Deferred outflows of resources | 107,092 | 158,547 |
| Total assets and deferred outflows of resources | 7,676,928 | 2,537,002 |
| Current liabilities | 1,088,747 | 14,148 |
| Noncurrent liabilities | 4,600,615 | 590,997 |
| Deferred inflows of resources | 101,189 | 38,727 |
| Total liabilities and deferred inflows of resources | 5,790,551 | 643,872 |
| Net position | \$ 1,886,377 | \$ 1,893,130 |

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 schedules presents a summary of general and special revenues and expenditures for all of the funds for the fiscal year ended June 30, 2022, and the amount and percentage of increases and decreases in relation to the prior year.

| Revenues | FYE 2022 Amount | FYE 2021 Amount | Percentage Incr(Decr) | Increase (Decrease) From FYE 21 |
|--------------------------|---------------------|---------------------|--------------------------|---------------------------------------|
| Property taxes | \$ 1,490,828 | \$ 1,467,759 | 1.6% | \$ 23,069 |
| Franchise fees | 47,486 | 42,800 | 10.9% | 4,686 |
| Telecommunications taxes | 25,390 | 25,165 | 0.9% | 225 |
| Assessments | 24,933 | 20,868 | 19.5% | 4,065 |
| Licenses and permits | 17,764 | 4,899 | 262.6% | 12,865 |
| Intergovernmental | 458,849 | 613,851 | -25.3% | (155,002) |
| Charges for services | 500 | 5,054 | -90.1% | (4,554) |
| Investment income | 3,945 | 1,922 | 105.3% | 2,023 |
| Miscellaneous | 43,330 | 804 | 5289.3% | 42,526 |
| Total Revenues | \$ 2,113,025 | \$ 2,183,122 | -3.2% | \$ (70,097) |

Assessments increased due to collection on past balances. Licenses and permits increased due to an increase in alcoholic beverage control licenses.

| Expenditures | FYE 2022 Amount | FYE 2021 Amount | Percentage Incr(Decr) | Increase (Decrease) From FYE 21 |
|---------------------------|---------------------|---------------------|--------------------------|---------------------------------------|
| General Government | \$ 840,984 | \$ 1,126,483 | -25.3% | \$ (285,499) |
| Public Works | 524,284 | 472,215 | 11.0% | 52,069 |
| Waste Disposal | 379,822 | 371,848 | 2.1% | 7,974 |
| Cemetery | 17,351 | 15,106 | 14.9% | 2,245 |
| ARPA expenses | 298,958 | - | 0.0% | 298,958 |
| Capital outlay | 4,088,941 | - | 0.0% | 4,088,941 |
| Debt service | 16,798 | 16,823 | -0.1% | (25) |
| Total Expenditures | \$ 6,167,138 | \$ 2,002,475 | 208.0% | \$ 4,164,663 |

Capital Outlay expenses increased as a result of a land purchase; public works increased due to increase in ice/snow removal and sidewalk repairs.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

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

| | Governmental Activities | |
|----------------|----------------------------|-------------------|
| | 2022 | 2021 |
| Land | \$ 4,089,972 | \$ 17,000 |
| Buildings | 264,139 | 284,891 |
| Equipment | 15,969 | 21,717 |
| Infrastructure | 610,301 | 610,801 |
| | \$ 4,980,381 | \$ 934,409 |

Debt

The City has \$4,250,964 in outstanding debt as of June 30, 2022, as detailed below:

| | Governmental Activities | |
|------------------------|----------------------------|-------------------|
| | 2022 | 2021 |
| KIA Sewer Loan | \$ 130,192 | \$ 142,607 |
| Bond Anticipation Note | 4,120,772 | - |
| Totals | \$ 4,250,964 | \$ 142,607 |

BUDGETARY HIGHLIGHTS

General Fund – Primarily as a result of receiving ARPA funds actual revenues were more than budgeted amounts by \$380,669; proceeds from debt were not budgeted in either the original or in an amended budget. Proceeds from the Bond Anticipation Note were \$4,120,772. Actual expenditures were more than budgeted by (\$4,414,983). The City did not budget the ARPA expenditures (\$298,958), the capital outlay for land purchased for development (\$4,072,972), or its annual debt service for the Kentucky Infrastructure Authority (KIA) Note for stormwater enhancements (\$16,798). The City also did not amend its budget to account for \$61,818 in expenditures for public works in excess of budget for that department. The City ended the year with a net decrease of \$26,811 in the fund balance in the General Fund.

Municipal Road Aid Fund – Actual revenues for this fund were \$8,530 in excess of the budget. No expenditures were either budgeted or made in this fund.

Cemetery Fund – Actual revenues for this fund were \$15,889 less than budgeted due to low plot sales. Expenditures were \$10,249 less than budgeted.

GASB 68 AND GASB 75 RECOGNITION

The City is required, by Governmental Accounting Standards Board Statements No. 68, to display its proportionate share of the unfunded liability of the Kentucky Public Pension Authority's County Employee Retirement System (CERS), a cost sharing multiple employer plan, in which the City is a participant. The net pension liability, \$263,065, the deferred outflow of resources, \$53,221, and the deferred inflow of resources, \$54,423, on the Statement of Net Position at June 30, 2022 are a function of this required reporting. Detailed information on this pension recognition can be found in Note 7 in the Notes to the Financial Statements.

The City is required, by Governmental Accounting Standards Board Statement No. 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 other post-employment benefit plan (OPEB), in which the City is a participant. The net OPEB liability, \$78,971, the deferred outflow of resources, \$53,871, and the deferred inflow of resources, \$46,766, on the Statement of Net Position at June 30, 2022 are a function of this required reporting. Detailed information on this OPEB recognition can be found in Note 7 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 2023 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, Amy Safran 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, 2022 |
|--|

| | Governmental Activities |
|--|------------------------------------|
| Assets | |
| Current assets | |
| Cash and cash equivalents | \$ 2,970,557 |
| Property taxes receivable | 5,793 |
| Other assets | 1,872 |
| Total current assets | <u>2,978,222</u> |
| Noncurrent assets | |
| Capital assets | |
| Land | 4,089,972 |
| Capital assets being depreciated | 890,409 |
| Less: accumulated depreciation | <u>(388,767)</u> |
| Net capital assets | <u>4,591,614</u> |
| Total assets | <u>7,569,836</u> |
| Deferred outflows of resources | |
| Deferred outflows related to pension and OPEB liabilities | <u>107,092</u> |
| Total assets and deferred outflows of resources | <u>7,676,928</u> |
| Liabilities | |
| Current liabilities | |
| Accrued liabilities | 517 |
| Deferred revenue - ARPA funds | 1,075,436 |
| Current portion of note payable | 12,794 |
| Total current liabilities | <u>1,088,747</u> |
| Noncurrent liabilities | |
| Compensated absences | 20,409 |
| Note payable | 117,398 |
| Bond anticipation note payable | 4,120,772 |
| Net pension and OPEB liabilities | 342,036 |
| Total noncurrent liabilities | <u>4,600,615</u> |
| Total liabilities | 5,689,362 |
| Deferred inflows of resources | |
| Deferred inflows related to pension and OPEB liabilities | <u>101,189</u> |
| Total liabilities and deferred inflows of resources | <u>5,790,551</u> |
| Net position | |
| Net investment in capital assets | 340,650 |
| Restricted | 224,570 |
| Unrestricted | 1,321,157 |
| Total net position | <u>\$ 1,886,377</u> |

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

| |
|---|
| CITY OF UNION, KENTUCKY BALANCE SHEET - GOVERNMENTAL FUNDS June 30, 2022 |
|---|

| | 2022 | | | (Memo Only) 2021 Totals |
|--|---------------------|--------------------------------|--------------------------------|-------------------------------|
| | General Fund | Other Governmental Funds | Total Governmental Funds | |
| Assets | | | | |
| Cash and cash equivalents | \$ 2,745,987 | \$ 224,570 | \$ 2,970,557 | \$ 1,830,132 |
| Receivables | | | | |
| Taxes | 5,793 | - | 5,793 | 7,210 |
| Other assets | 1,872 | - | 1,872 | - |
| Total assets | <u>\$ 2,753,652</u> | <u>\$ 224,570</u> | <u>\$ 2,978,222</u> | <u>\$ 1,837,342</u> |
| Liabilities and fund balances | | | | |
| Liabilities | | | | |
| Accrued liabilities | 517 | - | 517 | 1,732 |
| Deferred revenue - ARPA funds | 1,075,436 | - | 1,075,436 | - |
| Total liabilities | <u>1,075,953</u> | <u>-</u> | <u>1,075,953</u> | <u>1,732</u> |
| Fund balances | | | | |
| Restricted | - | 224,570 | 224,570 | 131,100 |
| Assigned | - | - | - | 46,770 |
| Unassigned | 1,677,699 | - | 1,677,699 | 1,657,740 |
| Total fund balances | <u>1,677,699</u> | <u>224,570</u> | <u>1,902,269</u> | <u>1,835,610</u> |
| Total liabilities and fund balances | <u>\$ 2,753,652</u> | <u>\$ 224,570</u> | <u>\$ 2,978,222</u> | <u>\$ 1,837,342</u> |

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

| |
|---|
| <p>CITY OF UNION, KENTUCKY RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION June 30, 2022</p> |
|---|

| | |
|--|--------------|
| Total fund balance for governmental funds | \$ 1,902,269 |
|--|--------------|

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

| | |
|--|-----------|
| Capital assets of \$4,980,381 less accumulated depreciation of (\$388,767), used in governmental activities are not financial resources and, therefore, are not reported in the funds. | 4,591,614 |
|--|-----------|

Deferred outflows and inflows of resources related to pensions and OPEB are applicable to future periods and, therefore, not reportable in the funds.

| | |
|--------------------------------|-----------|
| Deferred outflows of resources | 107,092 |
| Deferred inflows of resources | (101,189) |

Long-term liabilities, including notes payable and compensated absences, may not be due and payable in the current period in the funds and therefore, are not reported as liabilities in the governmental funds.

| | |
|----------------------------------|------------------|
| Compensated absences | (20,409) |
| Net pension and OPEB liabilities | (342,036) |
| Bond anticipation note payable | (4,120,772) |
| Note payable | <u>(130,192)</u> |

| | |
|--|----------------------------|
| Net position of governmental activities | <u>\$ 1,886,377</u> |
|--|----------------------------|

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, 2022

| | 2022 | | | (Memo Only) 2021 Totals |
|---|---------------------|--------------------------------|--------------------------------|-------------------------------|
| | General Fund | Other Governmental Funds | Total Governmental Funds | |
| Revenues | | | | |
| Property taxes | \$ 1,490,828 | \$ - | \$ 1,490,828 | \$ 1,467,759 |
| Franchise fees | 47,486 | - | 47,486 | 42,800 |
| Telecommunications taxes | 25,390 | - | 25,390 | 25,165 |
| Assessments | 24,933 | - | 24,933 | 20,868 |
| Licenses and permits | 17,764 | - | 17,764 | 4,899 |
| Intergovernmental | 348,860 | 109,989 | 458,849 | 613,851 |
| Charges for services | - | 500 | 500 | 5,054 |
| Investment income | 3,613 | 332 | 3,945 | 1,922 |
| Miscellaneous | 43,330 | - | 43,330 | 804 |
| Total revenues | <u>2,002,204</u> | <u>110,821</u> | <u>2,113,025</u> | <u>2,183,122</u> |
| Expenditures | | | | |
| Current expenditures | | | | |
| General government | 840,984 | - | 840,984 | 1,126,483 |
| Public works | 524,284 | - | 524,284 | 472,215 |
| Waste disposal | 379,822 | - | 379,822 | 371,848 |
| Cemetery | - | 17,351 | 17,351 | 15,106 |
| ARPA expenses | 298,958 | - | 298,958 | - |
| Capital outlay | 4,088,941 | - | 4,088,941 | - |
| Debt service | 16,798 | - | 16,798 | 16,823 |
| Total expenditures | <u>6,149,787</u> | <u>17,351</u> | <u>6,167,138</u> | <u>2,002,475</u> |
| Excess (deficit) of revenues over expenditures | <u>(4,147,583)</u> | <u>93,470</u> | <u>(4,054,113)</u> | <u>180,647</u> |
| Other financing sources (uses) | | | | |
| Proceeds from bond anticipation note | 4,120,772 | - | 4,120,772 | - |
| Operating transfers in | - | - | - | - |
| Operating transfers out | - | - | - | - |
| Total other financing sources (uses) | <u>4,120,772</u> | <u>-</u> | <u>4,120,772</u> | <u>-</u> |
| Net change in fund balances | (26,811) | 93,470 | 66,659 | 180,647 |
| Fund balances, beginning of year | 1,704,510 | 131,100 | 1,835,610 | 1,654,963 |
| Fund balances, end of year | <u>\$ 1,677,699</u> | <u>\$ 224,570</u> | <u>\$ 1,902,269</u> | <u>\$ 1,835,610</u> |

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

| |
|---|
| <p>CITY OF UNION, KENTUCKY RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES For the Year Ended June 30, 2022</p> |
|---|

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

| | |
|--|---------------------------------|
| Net change in fund balances - total governmental funds | \$ 66,659 |
| <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.</p> | |
| Capital asset purchases capitalized | 4,088,941 |
| Depreciation expense | (34,209) |
| Change due to disposal of capital assets | (4,231) |
| <p>Compensated absences not expected to be paid within this next fiscal year are not reported as liabilities in the fund, but are reported as liabilities in the statement of net position. This is the net change in compensated absences for the year.</p> | |
| | (12,882) |
| Proceeds from bond anticipation note | (4,120,772) |
| <p>Governmental funds report pension and OPEB contributions as expenditures. However, in the statement of activities, the cost of the pension and OPEB benefits earned net of employer contributions is reported as an expense.</p> | |
| Cost of benefits earned - pension | (3,251) |
| Cost of benefits earned -OPEB | 576 |
| <p>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.</p> | |
| | <u>12,416</u> |
| Change in net position of governmental activities | <u><u>\$ (6,753)</u></u> |

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

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| CITY OF UNION, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS June 30, 2022 |
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NOTE 1 – ACCOUNTING POLICIES

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

A. The Reporting Entity

The City is a municipality governed by an elected Mayor and four Commissioner members. The financial statements of the City include all of the funds for which the Mayor and Commissioners 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.

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| CITY OF UNION, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS June 30, 2022 |
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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.

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

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| CITY OF UNION, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS June 30, 2022 |
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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 Commissioners 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 Commissioners explaining any variance from the approved budget.
- 5) Appropriations continue in effect until a new budget is adopted.
- 6) The Commissioners 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 Commissioners.

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| CITY OF UNION, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS June 30, 2022 |
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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.

J. Restricted Assets

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

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| CITY OF UNION, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS June 30, 2022 |
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K. Interfund 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. Interfund 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. 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 Employee Retirement System (CERS) and additions to/deductions from CERS' fiduciary net position have been determined on the same basis of as they are reported by CERS. For this purpose, benefit payments are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

N. Other Post-Employment Benefits (OPEB) Health Insurance

For purposes of measuring the net 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 Employee Retirement System (CERS) and additions to/deductions from CERS' fiduciary net position have been determined on the same basis of as they are reported by CERS. For this purpose, benefit payments are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

O. 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 the Commissioners (the highest level of decision-making authority). Those committed amounts cannot be used for any other purpose unless the

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| CITY OF UNION, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS June 30, 2022 |
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Commissioners remove or change 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 the Commissioners.

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 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.

P. 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.

Q. 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.

R. 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.

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| CITY OF UNION, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS June 30, 2022 |
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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, 2022, \$5,793 was recorded as property taxes receivable.

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>\$ 5,793</u> |

NOTE 4 – CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended June 30, 2022:

| Asset type | Balance at June 30, 2021 | Additions | Deletions | Balance at June 30, 2022 |
|--------------------------------|-----------------------------|---------------------|-------------------|-----------------------------|
| Land | \$ 17,000 | \$ 4,072,972 | \$ - | \$ 4,089,972 |
| Non-depreciable assets | <u>17,000</u> | <u>4,072,972</u> | <u>-</u> | <u>4,089,972</u> |
| Buildings | 284,891 | - | (20,752) | 264,139 |
| Furniture and equipment | 21,717 | 15,969 | (21,717) | 15,969 |
| Infrastructure | 610,301 | - | - | 610,301 |
| Depreciable assets | <u>916,909</u> | <u>15,969</u> | <u>(42,469)</u> | <u>890,409</u> |
| Total capital assets | <u>933,909</u> | <u>4,088,941</u> | <u>(42,469)</u> | <u>4,980,381</u> |
| Less: accumulated depreciation | | | | |
| Buildings | (140,141) | (6,603) | 17,639 | (129,105) |
| Furniture and equipment | (20,598) | (3,194) | 20,599 | (3,193) |
| Infrastructure | (232,057) | (24,412) | - | (256,469) |
| Total accumulated depreciation | <u>(392,796)</u> | <u>(34,209)</u> | <u>38,238</u> | <u>(388,767)</u> |
| Capital assets, net | <u>\$ 541,113</u> | <u>\$ 4,054,732</u> | <u>\$ (4,231)</u> | <u>\$ 4,591,614</u> |

In fiscal year 2022, depreciation expense of \$34,209 was charged to general government.

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, 2022, accrued vacation pay is \$20,409.

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| CITY OF UNION, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS June 30, 2022 |
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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, 2021 | Additions | Deletions | Balance at June 30, 2022 | Current Portion |
|-----------------------------|-----------------------------|--------------|-------------|-----------------------------|--------------------|
| General obligations: | | | | | |
| KIA sewer loan | \$ 142,608 | \$ - | \$ (12,416) | \$ 130,192 | \$ 12,794 |
| 2022 Bond anticipation note | - | 4,120,772 | - | 4,120,772 | - |
| Total general obligations | 142,608 | 4,120,772 | (12,416) | 4,250,964 | 12,794 |
| Compensated absences | 7,527 | 12,882 | - | 20,409 | - |
| Total obligations | \$ 150,135 | \$ 4,133,654 | \$ (12,416) | \$ 4,271,373 | \$ 12,794 |

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

| Year Ending June 30: | KIA Sewer Loan | |
|-------------------------|----------------|-----------|
| | Principal | Interest |
| 2023 | \$ 12,794 | \$ 3,731 |
| 2024 | 13,183 | 3,342 |
| 2025 | 13,584 | 2,941 |
| 2026 | 13,997 | 2,528 |
| 2027 | 14,422 | 2,102 |
| 2028-2031 | 62,212 | 3,884 |
| Total | \$ 130,192 | \$ 18,528 |

Series 2022 Bond Anticipation Note - On June 24, 2022, the City issued \$4,120,772 in Series 2022 General Obligation Bond Anticipation Notes, the proceeds were used to purchase twenty-two acres of real property located within the City and paying the costs of issuance of the Notes. The Bond Anticipation Note matures in five years on June 30, 2027, interest is payable semi-annually at 4.554%.

| Fiscal Year | 2022 Bond Anticipation Note | |
|----------------|-----------------------------|------------|
| | Principal | Interest |
| 2023 | \$ - | \$ 174,818 |
| 2024 | - | 186,749 |
| 2025 | - | 186,749 |
| 2026 | - | 186,749 |
| 2027 | 4,120,772 | 186,749 |
| Totals | \$ 4,120,772 | \$ 921,814 |

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| <p>CITY OF UNION, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS June 30, 2022</p> |
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NOTE 7 – COUNTY EMPLOYEES’ RETIREMENT SYSTEM

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

General information about the County Employees Retirement System (“CERS”)

Plan description – City 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 Public Pension Authority, 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 Public Pension Authority administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Public Pension Authority 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 only Non-Hazardous employees.

Membership in CERS consisted of the following at June 30, 2021:

| | Non-Hazardous | |
|-----------------------------------|----------------|----------------|
| | Pension | OPEB |
| Active Plan Members | 81,250 | 80,745 |
| Inactive Plan Members | 95,692 | 29,208 |
| Retired Members | 65,414 | 37,037 |
| | <u>242,356</u> | <u>146,990</u> |
| Number of participating employers | | <u>1,139</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:

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| <p>CITY OF UNION, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS June 30, 2022</p> |
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| | | |
|--------|----------------------|--|
| 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 rate | 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% |

Contributions

The City contributed 26.95% of covered-employee's compensation, of which 21.17% was for the pension fund and 5.78% was for the health insurance fund.

The City made all required contributions for the non-hazardous Plan pension obligation for the fiscal year in the amount of \$41,072, of which \$32,264 was for the pension fund and \$8,809 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, 2022, the City reported a liability of \$263,065 as its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021, 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,

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| CITY OF UNION, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS June 30, 2022 |
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actuarially determined. At the June 30, 2021 measurement year, the City's non-hazardous employer allocation proportion was 0.0413% of the total CERS non-hazardous duty employees. For the year ended June 30, 2022, the City recognized pension inflows of \$54,423 in addition to its \$32,264 pension contribution.

At June 30, 2022, 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 | \$ 3,020 | \$ (2,553) |
| Net difference between projected actual earnings on plan investments | - | (35,062) |
| Changes of assumptions | 3,531 | - |
| Changes in proportion and differences between contributions and proportionate share of contributions | 14,406 | (16,808) |
| Contributions subsequent to the measurement date | 32,264 | - |
| | <u>\$ 53,221</u> | <u>\$ (54,423)</u> |

The City's contributions subsequent to the measurement date of \$32,264 will be recognized as a reduction of the net pension liability in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Measurement Year Ending June 30, | Net Deferral |
|-------------------------------------|--------------------|
| 2022 | \$ 1,421 |
| 2023 | (15,455) |
| 2024 | (8,454) |
| 2025 | (10,978) |
| 2026 | - |
| Thereafter | - |
| | <u>\$ (33,466)</u> |

Actuarial Assumptions

The total pension liability, net pension liability, and sensitivity information are based on an actuarial valuation date of June 30, 2020. The total pension liability was rolled forward from the valuation date to the plan's fiscal year ending date of June 30, 2021 using generally accepted actuarial procedures.

The actuarially determined contribution effective for the fiscal year ending in 2021 is based on an actuarial valuation date of June 30, 2019, and was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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| <p>CITY OF UNION, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS June 30, 2022</p> |
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| | |
|---------------------------|--|
| Valuation date | June 30, 2019 |
| Actuarial cost method | Entry Age Normal |
| Asset valuation method | 20% of the difference between the market value of assets and the expected actuarial value of assets is recognized |
| Amortization method | Level percent of pay |
| Amortization period | 30-year, closed period at June 30, 2019 |
| Payroll growth rate | 2.00% |
| Investment rate of return | 6.25% |
| Inflation | 2.30% |
| Salary increases | 3.30-10.30%, varies by service |
| Mortality | 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 |
| Phase-in provision | Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018 |

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for CERS. The most recent analysis, performed for the period covering fiscal years 2013 through 2018, is outlined in a report dated April 30, 2019. Several factors are considered in evaluating the long-term rate of return assumption including long term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense, and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

Changes of Assumptions

There have been no changes in actuarial assumptions since June 30, 2020.

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 benefit payments to determine the total pension liability.

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| CITY OF UNION, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS June 30, 2022 |
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Plan Target Allocation

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 Pensions (Haz & Non-Haz) Target Allocation | Long Term Expected Nominal Return |
|-----------------------------|--|---|
| US equity | 21.75% | 5.70% |
| Non-US equity | 21.75% | 6.35% |
| Private equity | 10.00% | 9.70% |
| Specialty credit/high yield | 15.00% | 2.80% |
| Core bonds | 10.00% | 0.00% |
| Cash | 1.50% | -0.60% |
| Real estate | 10.00% | 5.40% |
| Real return | 10.00% | 4.55% |
| Total | 100.00% | |

Sensitivity of the 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 | \$ 337,393 | \$ 263,065 | \$ 201,560 |
| Total | \$ 337,393 | \$ 263,065 | \$ 201,560 |

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.

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| <p>CITY OF UNION, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS June 30, 2022</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, 2016, the contribution was \$12.99 per month. |
| Tier 3 | Participation date | On or after September 1, 2008 |
| | Benefit eligibility | Recipient of a retirement allowance with at least 180 months of service at retirement |
| | Member premium paid by the plan | \$10/month for each year of earned service with a 1.5% increase each July 1. As of July 1, 2016, the contribution was \$12.99 per month. |

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

| | <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 KPPA Trustees. The City contributed 5.78% of covered employees' compensation for the health insurance fund.

These contributions are 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. For the year ended June 30, 2022, the City recognized OPEB inflow of \$46,766 in addition to its \$576 OPEB contribution.

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

At June 30, 2022, the City reported a liability of \$78,971 as its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2021, 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 of contributions to the OPEB plan relative to the projected contributions of all governmental entities, actuarially determined. At the June 30, 2021 measurement year, the City's proportion of the total non-hazardous plan was 0.0413%.

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| CITY OF UNION, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS June 30, 2022 |
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In addition, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Non-Hazardous | |
|--|---------------------|--------------------|
| | Deferred Outflow | Deferred Inflow |
| Differences between expected and actual experience | \$ 12,418 | \$ (23,578) |
| Net difference between projected actual earnings on plan investments | - | (12,354) |
| Changes of assumptions | 20,937 | (73) |
| Changes in proportion and differences between contributions and proportionate share of contributions | 11,707 | (10,761) |
| Contributions subsequent to the measurement date | 8,809 | - |
| | <u>\$ 53,871</u> | <u>\$ (46,766)</u> |

The City's contributions subsequent to the measurement date, \$8,809 for non-hazardous duty employees will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2023. 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 |
|-------------------------------------|-------------------|
| 2022 | \$ 2,075 |
| 2023 | 197 |
| 2024 | 1,379 |
| 2025 | (5,355) |
| 2026 | - |
| Thereafter | - |
| | <u>\$ (1,704)</u> |

Actuarial Assumptions

The total OPEB liability, net OPEB liability, and sensitivity information are based on an actuarial valuation date of June 30, 2020. The total OPEB liability was rolled forward from the valuation date to the plan's fiscal year ending date of June 30, 2021 using generally accepted actuarial procedures.

The actuarially determined contribution effective for the fiscal year ending in 2021 is based on an actuarial valuation date of June 30, 2019 and was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|------------------------|---|
| Valuation date | June 30, 2019 |
| Actuarial cost method | Entry Age Normal |
| Asset valuation method | 20% of the difference between the market value of assets and the expected actuarial value of assets is recognized |

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| <p>CITY OF UNION, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS June 30, 2022</p> |
|---|

| | |
|-----------------------------------|---|
| Amortization method | Level percent of pay |
| Amortization period | 30-year, closed period at June 30, 2019 |
| Payroll growth rate | 2.00% |
| Investment rate of return | 6.25% |
| Inflation | 2.30% |
| Salary increases | 3.30-10.30%, varies by service |
| Mortality | |
| Investment rate of return | 6.25%, net of OPEB plan expense, including inflation, |
| Mortality | 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 |
| Healthcare trend rates (Pre-65): | Initial trend starting at 6.25% at January 1, 2021 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. The 2020 premiums were known at the time of the valuation and were incorporated into the liability measurement. |
| Healthcare trend rates (Post-65): | Initial trend starting at 5.50% at January 1, 2021 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years. The 2020 premiums were known at the time of the valuation and were incorporated into the liability measurement. |
| Phase-in provision | Board certified rate is phased into the actuarially determined rate in accordance with HB 362 enacted in 2018. |

Changes of Assumptions

The discount rates used to calculate the total OPEB liability decreased from 5.34% to 5.20%. The assumed increase in future health care costs, or trend assumption, was reviewed during the June 30, 2021 valuation process and was updated to better reflect more current expectations relating to anticipated future increases in the medical costs. There were no other material assumption changes.

Discount Rate

The discount rate used to measure the total OPEB liability was 5.20% for the non-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.

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| CITY OF UNION, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS June 30, 2022 |
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Plan Target Allocation

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 Pensions (Haz & Non-Haz) Target Allocation | Long Term Expected Nominal Return |
|-----------------------------|--|---|
| US equity | 21.75% | 5.70% |
| Non-US equity | 21.75% | 6.35% |
| Private equity | 10.00% | 9.70% |
| Specialty credit/high yield | 15.00% | 2.80% |
| Core bonds | 10.00% | 0.00% |
| Cash | 1.50% | -0.60% |
| Real estate | 10.00% | 5.40% |
| Real return | 10.00% | 4.55% |
| Total | 100.00% | |

Sensitivity of the 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 5.20% 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:

| | Proportionate Share of Net OPEB Liability | | |
|------------------------------|---|--------------|----------------|
| | 1.00% Decrease | Current Rate | 1.00% Increase |
| Discount Rate, Non-Hazardous | 4.20% | 5.20% | 6.20% |
| Net OPEB liability, Non-Haz | \$ 108,427 | \$ 78,971 | \$ 54,798 |
| Total | \$ 108,427 | \$ 78,971 | \$ 54,798 |

Sensitivity of the 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 | \$ 56,850 | \$ 78,971 | \$ 105,672 |
| Total | \$ 56,850 | \$ 78,971 | \$ 105,672 |

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 Kentucky Public Pension Authority, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky, 40601.

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| CITY OF UNION, KENTUCKY NOTES TO THE FINANCIAL STATEMENTS June 30, 2022 |
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NOTE 8 – 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 have been made in the accompanying financial statements.

NOTE 9 – 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.

Management estimates that the amount of actual or potential claims against the City as of June 30, 2022 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 10 – STATE AND LOCAL FISCAL RECOVERY FUNDS

In response to the COVID-19 Global Pandemic, the City has qualified and was approved for \$1,375,127 in funding from the American Rescue Plan Act. This funding has been designated to help city governments respond to the pandemic and its negative economic impacts. The City has received these funds and recognized \$289,763 as income during the year ended June 30, 2022. The remaining \$1,085,364 is Unearned Revenue at June 30, 2022

NOTE 11 – IMPLEMENTATION OF NEW ACCOUNTING STANDARDS

Statement No. 87 – *Leases* – FY 2022

Statement No. 91 – *Conduit Debt Obligations* – FY 2022

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

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

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

The implementation of these standards had no significant effect on the City.

NOTE 12 – FUTURE ACCOUNTING STANDARDS

Statement No. 94 – *Public-Private and Public-Public Partnerships* – FY 2023

Statement No. 96 – *Subscription-Based Information Technology Arrangements* – FY 2023

Statement No. 98 – *Annual Comprehensive Financial Report* – FY 2023

Statement No. 99 – *Omnibus 2022* – FY 2024

CITY OF UNION, KENTUCKY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2022

Statement No. 100 – *Accounting Changes and Error Corrections* – FY 2024

Statement No. 101 – *Compensated Absences* – FY 2025

NOTE 13 – SUBSEQUENT EVENTS

Management has evaluated events through April 7, 2023, the date on which the financial statements were available for issue. The City did not have any events subsequent to June 30, 2022 through April 7, 2023 to disclose.

CITY OF UNION, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2022

| | Budgeted Amounts | | | Actual Amounts | Variance Favorable (Unfavorable) |
|---|---------------------|-------------|---------------------|---------------------|--|
| | Original | Amendments | Final | | |
| Budgetary fund balance, July 1 | \$ 1,484,304 | \$ - | \$ 1,484,304 | \$ 1,704,510 | 220,206 |
| Resources (inflows) | | | | | |
| Estimated revenues | 1,621,535 | - | 1,621,535 | 2,002,204 | 380,669 |
| Proceeds from debt | - | - | - | 4,120,772 | 4,120,772 |
| Transfer of funds | - | - | - | - | - |
| Amounts available for appropriation | 3,105,839 | - | 3,105,839 | 7,827,486 | 4,721,647 |
| Charges to appropriations (outflows) | | | | | |
| General government | 890,495 | - | 890,495 | 840,984 | 49,511 |
| Public works | 462,466 | - | 462,466 | 524,284 | (61,818) |
| Waste disposal | 381,843 | - | 381,843 | 379,822 | 2,021 |
| ARPA expenses | - | - | - | 298,958 | (298,958) |
| Capital outlay | - | - | - | 4,088,941 | (4,088,941) |
| Debt service | - | - | - | 16,798 | (16,798) |
| Total charges to appropriations | 1,734,804 | - | 1,734,804 | 6,149,787 | (4,414,983) |
| Transfers in (out) | - | - | - | - | - |
| Budgetary fund balance, June 30 | \$ 1,371,035 | \$ - | \$ 1,371,035 | \$ 1,677,699 | \$ 306,664 |

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)

| | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|------------|------------|------------|------------|------------|------------|------------|------------|------|------|
| Proportion of net pension liability | 0.0041% | 0.0045% | 0.0041% | 0.0032% | 0.0040% | 0.0142% | 0.0139% | 0.0134% | | |
| Proportionate share of the net pension liability (asset) | \$ 263,065 | \$ 344,763 | \$ 290,816 | \$ 196,778 | \$ 234,249 | \$ 699,711 | \$ 596,683 | \$ 435,622 | | |
| Covered payroll in year of measurement | 111,048 | 121,248 | 108,000 | 46,685 | 118,015 | 224,408 | 222,875 | 209,804 | | |
| Share of the net pension liability (asset) as a percentage of its covered payroll | 236.89% | 284.35% | 269.27% | 421.50% | 198.49% | 311.80% | 267.72% | 207.63% | | |
| Plan fiduciary net position as a percentage of total pension liability | 57.33% | 47.81% | 50.54% | 53.54% | 53.30% | 55.50% | 59.97% | 66.80% | | |

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

| | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 |
|--|------------|------------|------------|------------|-----------|------------|------------|------------|------------|------|
| Contractually required contribution | \$ 32,264 | \$ 21,432 | \$ 23,401 | \$ 17,518 | \$ 6,760 | \$ 16,408 | \$ 27,871 | \$ 28,416 | \$ 28,827 | |
| Actual contribution | 32,264 | 21,432 | 23,401 | 17,518 | 6,760 | 16,408 | 27,871 | 28,416 | 28,827 | |
| Contribution deficiency (excess) | - | - | - | - | - | - | - | - | - | - |
| Covered payroll | \$ 152,402 | \$ 111,048 | \$ 121,248 | \$ 108,000 | \$ 46,685 | \$ 118,015 | \$ 224,408 | \$ 222,875 | \$ 209,804 | |
| Contributions as a percentage of covered payroll | 21.17% | 19.30% | 19.30% | 16.22% | 14.48% | 13.90% | 12.42% | 12.75% | 13.74% | |

Notes to Required Supplementary Information
For the Year Ended June 30, 2022

The net pension liability as of June 30, 2022 is based on the June 30, 2021, 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 7 in the Notes to the Financial Statements.

CITY OF UNION, KY
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 OPEB Liability
County Employees' Retirement System (CERS)

| | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|-----------|------------|-----------|-----------|-----------|------|------|------|------|------|
| Proportion of net pension liability | 0.0041% | 0.0045% | 0.0041% | 0.0032% | 0.0040% | | | | | |
| Proportionate share of the net pension liability (asset) | \$ 78,971 | \$ 108,516 | \$ 69,532 | \$ 57,366 | \$ 80,454 | | | | | |
| Covered payroll in year of measurement | 111,048 | 121,248 | 108,000 | 46,685 | 118,015 | | | | | |
| Share of the net pension liability (asset) as a percentage of its covered payroll | 71.11% | 89.50% | 64.38% | 122.88% | 68.17% | | | | | |
| Plan fiduciary net position as a percentage of total pension liability | 62.91% | 51.67% | 60.44% | 57.62% | 52.40% | | | | | |

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

| | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 |
|--|------------|------------|------------|------------|-----------|------------|------|------|------|------|
| Contractually required contribution | \$ 8,809 | \$ 5,286 | \$ 5,771 | \$ 5,681 | \$ 2,194 | \$ 5,582 | | | | |
| Actual contribution | 8,809 | 5,286 | 5,771 | 5,681 | 2,194 | 5,582 | | | | |
| Contribution deficiency (excess) | - | - | - | - | - | - | | | | |
| Covered payroll | \$ 152,402 | \$ 111,048 | \$ 121,248 | \$ 108,000 | \$ 46,685 | \$ 118,015 | | | | |
| Contributions as a percentage of covered payroll | 5.78% | 4.76% | 4.76% | 5.26% | 4.70% | 4.73% | | | | |

Notes to Required Supplementary Information
For the Year Ended June 30, 2022

The net OPEB liability as of June 30, 2022, is based on the June 30, 2021, 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 7 in the Notes to the Financial Statements.

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| CITY OF UNION, KENTUCKY COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS June 30, 2022 |
|---|

| | <u>Municipal Road Aid Fund</u> | <u>Cemetery Fund</u> | <u>Total Non-Major Funds</u> |
|--|--|--------------------------|--------------------------------------|
| Assets | | | |
| Cash and cash equivalents | \$ 173,479 | \$ 51,091 | \$ 224,570 |
| Accounts receivable | | | |
| Intergovernmental | - | - | - |
| Total assets | <u>\$ 173,479</u> | <u>\$ 51,091</u> | <u>\$ 224,570</u> |
| Liabilities and fund balances | | | |
| Liabilities | | | |
| Accounts payable | \$ - | \$ - | \$ - |
| Due to other funds | - | - | - |
| Total liabilities | <u>-</u> | <u>-</u> | <u>-</u> |
| Fund balances | | | |
| Restricted | 173,479 | 51,091 | 224,570 |
| Assigned | - | - | - |
| Unassigned | - | - | - |
| Total fund balances | <u>173,479</u> | <u>51,091</u> | <u>224,570</u> |
| Total liabilities and fund balances | <u>\$ 173,479</u> | <u>\$ 51,091</u> | <u>\$ 224,570</u> |

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

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| CITY OF UNION, KENTUCKY COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - NON-MAJOR GOVERNMENTAL FUNDS For the Year Ended June 30, 2022 |
|---|

| | <u>Municipal Road Aid Fund</u> | <u>Cemetery Fund</u> | <u>Total Non-Major Funds</u> |
|--|--|--------------------------|--------------------------------------|
| Revenues | | | |
| Intergovernmental revenue | \$ 109,989 | \$ - | \$ 109,989 |
| Charges for services | - | 500 | 500 |
| Interest | 241 | 91 | 332 |
| Total revenues | <u>110,230</u> | <u>591</u> | <u>110,821</u> |
| Expenditures | | | |
| Streets | - | - | - |
| Cemetery expenses | - | 17,351 | 17,351 |
| Total expenditures | <u>-</u> | <u>17,351</u> | <u>17,351</u> |
| Excess (deficit) of revenues over expenditures | 110,230 | (16,760) | 93,470 |
| Other financing sources (uses) | | | |
| Operating transfers out | <u>-</u> | <u>-</u> | <u>-</u> |
| Excess (deficit) of revenues and other financing sources over expenditures and other financing uses | 110,230 | (16,760) | 93,470 |
| Fund balances, beginning of year | 63,249 | 67,851 | 131,100 |
| Fund balances, end of year | <u>\$ 173,479</u> | <u>\$ 51,091</u> | <u>\$ 224,570</u> |

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

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|---|
| CITY OF UNION, KENTUCKY BUDGETARY COMPARISON SCHEDULE BUDGET AND ACTUAL - MUNICIPAL ROAD AID FUND For the Year Ended June 30, 2022 |
|---|

| | Budgeted Amounts | | | Actual Amounts | Variance Favorable (Unfavorable) |
|--|-------------------|-------------|-------------------|-------------------|--|
| | Original | Amendments | Final | | |
| Budgetary fund balance, July 1 | \$ 64,500 | \$ - | \$ 64,500 | \$ 63,249 | \$ (1,251) |
| Resources (inflows): | | | | | |
| Estimated revenues | 100,320 | - | 100,320 | 109,989 | 9,669 |
| Interest | 119 | - | 119 | 241 | 122 |
| Amounts available for appropriation | <u>164,939</u> | <u>-</u> | <u>164,939</u> | <u>173,479</u> | <u>8,540</u> |
| Charges to appropriations (outflows): | | | | | |
| Streets | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total charges to appropriations | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Transfers to (from) fund | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Budgetary fund balance, June 30 | <u>\$ 164,939</u> | <u>\$ -</u> | <u>\$ 164,939</u> | <u>\$ 173,479</u> | <u>\$ 8,540</u> |

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

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|---|
| CITY OF UNION, KENTUCKY BUDGETARY COMPARISON SCHEDULE BUDGET AND ACTUAL - CEMETERY FUND For the Year Ended June 30, 2022 |
|---|

| | Budgeted Amounts | | | Actual Amounts | Variance Favorable (Unfavorable) |
|--|------------------|-------------|------------------|-------------------|--|
| | Original | Amendments | Final | | |
| Budgetary fund balance, July 1 | \$ 71,500 | \$ - | \$ 71,500 | \$ 67,851 | \$ (3,649) |
| Resources (inflows): | | | | | |
| Plot sales income | 12,000 | - | 12,000 | 500 | (11,500) |
| Interest income | 831 | - | 831 | 91 | (740) |
| Transfer to (from) fund | - | - | - | - | - |
| Amounts available for appropriation | <u>84,331</u> | <u>-</u> | <u>84,331</u> | <u>68,442</u> | <u>(15,889)</u> |
| Charges to appropriations (outflows): | | | | | |
| Cemetery expenses | <u>27,600</u> | <u>-</u> | <u>27,600</u> | <u>17,351</u> | <u>10,249</u> |
| Total charges to appropriations | <u>27,600</u> | <u>-</u> | <u>27,600</u> | <u>17,351</u> | <u>10,249</u> |
| Budgetary fund balance, June 30 | <u>\$ 56,731</u> | <u>\$ -</u> | <u>\$ 56,731</u> | <u>\$ 51,091</u> | <u>\$ (5,640)</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
Commissioners of the
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, 2022 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 April 7, 2023.

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) 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 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 have not been identified. We did identify certain deficiencies in internal control, described below as finding **2022-01** that we consider to be a material weakness:

Finding 2022-01 – Lack of Internal Control Over Financial Reporting

Criteria: Kentucky Revised Statute 91A.020, paragraph (1)(b) states “*Each city shall keep its accounting records and render financial reports in such a way as to: (b) Determine fairly and with full disclosure the financial operations of the constituent funds and account groups of the city in conformity with generally accepted governmental accounting principles.*” The City is required by KRS statute to have internal controls over the financial reporting process to produce financial records that are in accordance with generally accepted accounting principles.

Condition: The City Consultant Accountant failed to record the purchase of the Grammas Property for \$4,072,972 and the associated Bond Acquisition Note for \$4,120,772.

Effect: This oversight understated both the asset position and the debt position of the City by over \$4 million dollars.

Recommendation: We recommend that the City’s Consultant Accountant prepare industry standard, accurate, and timely financial statements that include all City transactions.

Management Comment: *The City is establishing procedures with the Consultant Accountant to prepare industry standard, accurate and timely financial statements.*

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 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 2022-02 – Expenditure in Excess of Budget – General Fund

Criteria – Kentucky Revised Statute 91A.030(1) states “Each city shall operate under an annual budget ordinance adopted and administered in accordance with the provisions of this section. Notwithstanding any other provision of law, no city shall expend any moneys from any governmental or proprietary fund, except in accordance with a budget ordinance adopted pursuant to this section.”

Condition – The City expended \$4,414,983 more than budgeted in the General Fund for the fiscal year ended June 30, 2022. The City did not budget for / or amend its fiscal year 2022 budget to account for funds expended on the following:

| | |
|---|-----------------------|
| Capital Outlay for Grammas Property | \$ (4,072,972) |
| American Rescue Plan Act funds expended | (298,958) |
| Debt Service KIA Loan | (16,798) |
| Public Works expenditures in excess of budget | (61,818) |
| Other expenditures under budget | 35,563 |
| Expenditures in Excess of Budget | <u>\$ (4,414,983)</u> |

Effect – Expending more than budgeted appropriations is a violation of KRS 91A.030(1).

Recommendation – The City should re-evaluate its budget amendment process to ensure all actual expenditures are considered in the amended budget.

Management Comments – *The City will review its budget process to be in compliance with Kentucky Revised Statutes.*

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.

Chamberlin Owen & Co., Inc.

Chamberlin Owen & Co., Inc.

Erlanger, Kentucky

April 7, 2023