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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Commission
City of Union, Kentucky

We have audited the accompanying financial statements of the governmental activities and each major fund and the aggregate remaining fund information of the City of Union, Kentucky as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Union, Kentucky's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Union, Kentucky as of June 30, 2008, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 22, 2008 on our consideration of the City of Union's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 other supplementary information listed in the table of contents is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Teresa Franklin Hudson CPA Inc.

Teresa Franklin Hudson, CPA, Inc.

October 22, 2008

"A copy of the complete audit report, including financial statements and supplemental information, is on file at the Union City building and is available for public inspection during normal business hours. Any citizen may obtain from city hall a copy of the complete audit report, including financial statements and supplemental information, for his personal use. Citizens requesting a personal copy of the city audit report will be charged for duplication costs at a rate that shall not exceed twenty-five cents (\$0.25) per page. Copies of the financial statement prepared in accordance with KRS 424.220 are available to the public at no cost at city hall. "

City of Union
Statement of Revenues, Expenditures, and
Changes in Fund Balance - Budget & Actual (Non-GAAP Budgetary Basis)
For the Year Ended June 30, 2008

	Original Budget	Revisions	Revised Budget	Total Actual	Variance Favorable (Unfavorable)
Budgetary Fund Balance - beginning of year	\$ 1,400,600	\$ -	\$ 1,400,600	\$ 1,338,475	(62,125)
Revenues					
Property taxes-Real Property	\$ 802,188	\$ (25,046)	\$ 777,142	\$ 778,785	\$ 1,643
Property taxes -Tangible Property	15,825	3,158	18,983	24,393	5,410
Bank deposit tax	15,800	(5,755)	10,045	10,045	-
Cable Franchise fees	20,705	5	20,710	24,850	4,140
Municipal Road Aid	46,794	57,895	104,689	110,373	5,684
LGEAF - Coal & Mineral Fund	1,965	85	2,050	1,788	(262)
Cemetery	3,200	(800)	2,400	3,526	1,126
Interest	26,634	(11,751)	14,883	19,689	4,806
Grant revenues	491,000	109,000	600,000	124,226	(475,774)
Proceeds of Long-term Debt	-	-	-	375,000	375,000
Miscellaneous	530	965	1,495	1,563	68
Total Revenue	1,424,641	127,756	1,552,397	1,474,238	(78,159)
Amounts available for appropriation	2,825,241	127,756	2,952,997	2,812,713	(140,284)
Expenditures					
General Government					
Personnel expenses					
Salary-Mayor & Commission	3,375	-	3,375	2,970	405
Salary-City Clerk/Treasurer	40,425	2,075	42,500	41,660	840
Salary - City Administrator	13,000	(600)	12,400	12,480	(80)
Temporary help	13,500	(4,500)	9,000	7,589	1,411
Payroll taxes	2,164	50	2,214	1,783	431
Workers Compensation	550	-	550	533	17
Retirement benefits	5,332	274	5,606	6,692	(1,086)
Business/Travel	9,000	(5,000)	4,000	1,803	2,197
Cemetery Sexton	1,200	-	1,200	1,100	100
Building expenses					
City building utilities	4,000	1,300	5,300	4,696	604
City building janitorial & maintenance	4,400	14,000	18,400	15,294	3,106
Principal-City building capital lease	11,000	-	11,000	11,841	(841)
Interest-City building capital lease	1,300	-	1,300	1,048	252
Telephone	3,400	-	3,400	2,821	579
Office equipment & repair	18,000	-	18,000	15,427	2,573
Office supplies	2,000	-	2,000	1,713	287
Postage	500	1,000	1,500	2,170	(670)
Professional fees					
County PVA fees	17,000	2,000	19,000	18,634	366
Insurance	5,500	-	5,500	7,486	(1,986)
Legal advertising	4,000	500	4,500	3,608	892
NKY Regional Ethics Authority	500	-	500	300	200
City attorney	49,400	29,600	79,000	78,993	7
Planning & zoning	88,000	(15,000)	73,000	66,644	6,356
Interlocal agreement	1,200	-	1,200	1,101	99
Audit fees	4,500	(300)	4,200	3,950	250
Accounting & Professional fees	2,800	200	3,000	2,092	908
City Engineer	169,050	106,950	276,000	266,964	9,036
Code of Ordinances update	4,000	(500)	3,500	3,101	399
NKADD fees	1,500	-	1,500	-	1,500
Other					
Dues and subscriptions	2,300	1,700	4,000	3,315	685
Petty cash	500	-	500	167	333
Filing fees	100	-	100	19	81
Miscellaneous	650	3,500	4,150	3,967	183
Total General Government	484,146	137,249	621,395	591,961	29,434
Public Works					
Street repairs	222,000	(136,300)	85,700	73,077	12,623
Storm sewers	18,000	(15,000)	3,000	2,561	439
Street signs	2,000	-	2,000	1,629	371
Snow removal	6,000	94,500	100,500	100,315	185
Sanitary sewers	372,600	12,900	385,500	25,503	359,997
Mowing/Landscaping	30,000	-	30,000	32,420	(2,420)
Street & traffic lights	31,000	41,000	72,000	64,037	7,963
Capital expenditures - buildings	-	-	-	375,000	(375,000)
Total Public Works	681,600	(2,900)	678,700	674,542	4,158
Waste Collection	200,000	12,000	212,000	182,634	29,366
Cemetery maintenance	6,800	(5,800)	1,000	2,686	(1,686)
Total Expenditures	1,372,546	140,549	1,513,095	1,451,823	61,272
Excess of revenues over (under) expenditures	\$ 52,095	\$ (12,793)	\$ 39,302	\$ 22,415	\$ 16,887
Fund Balance - End of Year	\$ 1,452,695	\$ (12,793)	\$ 1,439,902	\$ 1,360,890	\$ (79,012)

The accompanying footnotes are an integral part of these financial statements