

CITY OF UNION, KENTUCKY

JUNE 30, 2015

AUDITED FINANCIAL STATEMENTS



MADDOX & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

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MADDOX & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

City of Union, Kentucky
1843 Mt. Zion Road
Union, KY 41091

To the Honorable Mayor
and Members of the City Council

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Union, Kentucky (City) as of and for the year ended June 30, 2015 and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

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, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, during the year ended June 30, 2015, the City adopted the provisions of Governmental Accounting Standard No. 68, *Accounting and Financial Reporting for Pensions*. We did not modify our opinion regarding this matter.

Other Matters**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison, listed in the table of contents, to supplement the basic financial statements. Although this information is not a part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Management has elected to omit Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2016, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.

Maddox & Associates CPAs Inc.

Fort Thomas, Kentucky

January 11, 2016

City of Union, Kentucky
Statement of Net Position
June 30, 2015

	Governmental Activities
Assets:	
Cash and cash equivalents	\$ 1,190,589
Taxes receivable	19,093
Assessments receivable	202,014
Loan fees	5,443
Capital assets, net	727,641
	<hr/>
Total assets	2,144,780
Deferred Outflows of Resources	
Pension contributions for fiscal year 2015	17,649
	<hr/>
Total assets and deferred outflows of resources	2,162,429
Liabilities:	
Accounts payable	79,714
Accrued payroll liabilities	5,164
Net pension liability	105,000
Long-term liabilities:	
Compensated absences	17,249
Due within one year	20,636
Due in more than one year	549,821
	<hr/>
Total liabilities	777,584
Deferred inflows of resources	
Net difference between projected and actual investment earnings on pension plan investments	12,000
	<hr/>
Total liabilities and deferred inflows of resources	789,584
Net position:	
Net investment in capital assets	157,184
Restricted for:	
Public works	153,683
Other purposes	56,530
Unrestricted	1,005,448
	<hr/>
Total net position	\$ 1,372,845
	<hr/> <hr/>

City of Union, Kentucky
Statement of Activities
For the Year Ended June 30, 2015

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Revenue and Changes in Net Position</u>
					<u>Governmental Activities</u>
Governmental activities					
General government	\$ 598,737	\$ 0	\$ 600	\$ 0	\$ (598,137)
Public works	325,390	0	178,784	0	(146,606)
Sanitation	261,110	0	0	0	(261,110)
City events	25,181	7,028	0	0	(18,153)
Cemetery	4,550	23,150	0	0	18,600
	<u>4,550</u>	<u>23,150</u>	<u>0</u>	<u>0</u>	<u>18,600</u>
Total governmental activities	<u>\$ 1,214,968</u>	<u>\$ 30,178</u>	<u>\$ 179,384</u>	<u>\$ 0</u>	<u>(1,005,406)</u>

General revenues:	
Property taxes	1,021,834
Bank deposits tax	17,395
Cable franchise fees	22,192
Assessments	37,358
Interest income	1,774
Miscellaneous	1,263
	<u>1,101,816</u>
Total general revenues	<u>1,101,816</u>
Change in net position	96,410
Prior period adjustment	(104,996)
Net position - beginning	<u>1,381,431</u>
Net position - ending	<u>\$ 1,372,845</u>

City of Union, Kentucky
 Balance Sheet
 Governmental Funds
 June 30, 2015

	General Fund	Municipal Road Aid Fund	Coal Fund	Cemetery Fund	Total Governmental Funds
Assets:					
Cash and cash equivalents	\$ 957,242	\$ 153,683	\$ 23,134	\$ 56,530	\$ 1,190,589
Taxes receivable	19,093				19,093
Assessments receivable	202,014				202,014
Total assets	<u>\$ 1,178,349</u>	<u>\$ 153,683</u>	<u>\$ 23,134</u>	<u>\$ 56,530</u>	<u>\$ 1,411,696</u>
Liabilities:					
Accounts payable	\$ 79,714	\$ 0	\$ 0	\$ 0	\$ 79,714
Accrued payroll liabilities	5,164				5,164
Total liabilities	<u>84,878</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>84,878</u>
Deferred inflows of resources:					
Taxes and assessments	221,107	0	0	0	221,107
Total deferred inflows of resources	<u>221,107</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>221,107</u>
Fund balances:					
Nonspendable	0	0	0	0	0
Restricted	0	153,683	0	56,530	210,213
Committed	0	0	0	0	0
Assigned	0	0	0	0	0
Unassigned	872,364	0	23,134	0	895,498
Total fund balances	<u>872,364</u>	<u>153,683</u>	<u>23,134</u>	<u>56,530</u>	<u>1,105,711</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,178,349</u>	<u>\$ 153,683</u>	<u>\$ 23,134</u>	<u>\$ 56,530</u>	<u>\$ 1,411,696</u>

City of Union, Kentucky
 Reconciliation of Total Governmental Fund Balances
 to Net Position of Governmental Activities
 June 30, 2015

Total governmental fund balances	\$ 1,105,711
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	727,641
Some assets are not available to be used as current financial resources and therefore are not reported in the funds	5,443
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	221,107
Deferred outflows related to pensions	17,649
Deferred inflows related to pensions	(12,000)
Long-term liabilities are not due and payable in the current period and therefore are not included in the funds.	
Compensated absences	(17,249)
Long-term debt	(570,457)
Net pension liability	<u>(105,000)</u>
Net position of governmental activities	<u>\$ 1,372,845</u>

City of Union, Kentucky
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2015

	Primary Government				Total Governmental Funds
	General Fund	Municipal Road Aid Fund	Coal Fund	Cemetery Fund	
Revenues:					
Property taxes	\$ 1,043,763	\$ 0	\$ 0	\$ 0	\$ 1,043,763
Bank deposits tax	17,395				17,395
Cable Franchise fees	22,192				22,192
Intergovernmental revenues		178,784	600		179,384
Cemetery				23,150	23,150
Investment Income	1,429		303	42	1,774
Assessments	37,358				37,358
City events	7,028				7,028
Miscellaneous	1,492				1,492
Refunds / overpayments	(229)				(229)
Total revenues	1,130,428	178,784	903	23,192	1,333,307
Expenditures:					
Current:					
General government	556,914				556,914
Streets	36,447	288,943			325,390
Sanitation	254,478				254,478
Recreation	25,181				25,181
Cemetery	3,187			1,363	4,550
Capital outlay	0	0	0	0	0
Debt service:					
Principal	19,974	0	0	0	19,974
Interest	22,944	0	0	0	22,944
Total expenditures	919,125	288,943	0	1,363	1,209,431
Excess (deficiency) of revenues over expenditures	211,303	(110,159)	903	21,829	123,876
Other financing sources (uses):					
Transfers	0	0	0	0	0
Insurance reimbursement	0	0	0	0	-
Total other financing sources (uses)	0	0	0	0	0
Net change in fund balances	211,303	(110,159)	903	21,829	123,876
Beginning fund balances	661,061	263,842	22,231	34,701	981,835
Ending fund balances	\$ 872,364	\$ 153,683	\$ 23,134	\$ 56,530	\$ 1,105,711

City of Union, Kentucky
 Reconciliation of the Statement of Revenues, Expenditures,
 and Changes in Fund Balances of Governmental Funds
 to the Statement of Activities
 For the Year Ended June 30, 2015

Net change in fund balances - total governmental funds	\$ 123,876
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.	(31,156)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(21,929)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	19,974
Governmental funds report city pension contributions as expenditures. However, in the statement of activities the cost of pension benefits earned net of employer contributions is reported as pension expense	<u>5,645</u>
Change in net position of governmental activities	<u><u>\$ 96,410</u></u>

City of Union
Statement of Revenues, Expenditures, and Changes in
Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis)
For the Year Ended June 30, 2015

	General Fund			Variance from Final Budget
	Original Budget	Final Budget	Actual	
Beginning fund balance	\$ 872,364	\$ 872,364	\$ 872,364	
Revenues:				
Tax revenue	1,052,000	1,052,000	1,061,158	9,158
Municipal road aid	126,800	126,800	179,384	52,584
Other income	76,000	76,000	92,765	16,765
Total revenue	<u>1,254,800</u>	<u>1,254,800</u>	<u>1,333,307</u>	<u>78,507</u>
Expenditures:				
Waste collection	270,000	270,000	268,623	1,377
Public works	278,000	336,000	325,390	10,610
Stormwater	50,000	50,000	1,009	48,991
Sewer	5,000	5,000	427	4,573
Mowing	34,000	44,000	38,265	5,735
Property maintenance	11,000	11,000	5,456	5,544
Salaries and benefits	167,872	167,872	128,244	39,628
Legal fees	60,000	60,000	65,283	(5,283)
Planning and zoning	73,000	73,000	73,000	0
Engineer fees	50,000	52,000	60,549	(8,549)
Debt service	40,000	40,000	42,918	(2,918)
Other expenditures	161,400	188,000	200,267	(12,267)
Total expenditures	<u>1,200,272</u>	<u>1,296,872</u>	<u>1,209,431</u>	<u>87,441</u>
Excess (deficiency) of revenues over expenditures	<u>54,528</u>	<u>(42,072)</u>	<u>123,876</u>	<u>165,948</u>
Net change in fund balances	<u>54,528</u>	<u>(42,072)</u>	<u>123,876</u>	<u>165,948</u>
Ending fund balances	<u>\$ 926,892</u>	<u>\$ 830,292</u>	<u>\$ 996,240</u>	

The accompanying notes are an integral of the financial statements.

NOTE 1 – ACCOUNTING POLICIES

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

A. The Reporting Entity

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

B. Basis of Presentation

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

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

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

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

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

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 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 measureable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

F. Budgetary Data

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

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

Expenditures may not legally exceed budgeted appropriations at the function level. Any revisions to the budget that would alter total revenues and expenditures of any fund must be approved by the City Council.

G. Cash and Cash Equivalents

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

H. Capital Assets

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

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

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

Description	Estimated Lives
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.

K. Interfund Balances

On the fund financial statements, unpaid amounts for interfund 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 interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

M. Fund Balance

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

Nonspendable – The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

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

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

contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

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

Unassigned – Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

N. Use of Estimates

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

O. Net Position

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

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

P. Extraordinary and Special Items

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

NOTE 2 – CHANGE IN ACCOUNTING PRINCIPLES

In the fiscal year, the City implemented GASB Statement No. 68, “Accounting and Financial Reporting for Pensions”. The implementation of GASB statement did not have an effect on the financial statements of the City.

NOTE 3 – 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, 2015, \$19,093 was recorded as property taxes receivable. The receivable balance that was not collected within thirty days of the end of the fiscal year was recognized as deferred revenue in the amount of \$19,093.

NOTE 4 – 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	\$ 20,903
Assessments receivable	
Sewer assessments	\$ 190,661
Street-light assessments	11,353
Total	<u>\$ 202,014</u>

NOTE 5 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2015 is summarized below:

<u>Governmental Activities</u>	<u>Balance 7/1/2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 6/30/2015</u>
Capital assets				
Land	\$ 17,000	\$ 0	\$ 0	\$ 17,000
Buildings	565,494	0	0	565,494
Furniture and equipment	18,922	0	0	18,922
Infrastructure	430,979	0	0	430,979
Total capital assets	<u>1,032,395</u>	<u>0</u>	<u>0</u>	<u>1,032,395</u>
Less accumulated depreciation				
Buildings	157,040	14,137	0	171,177
Furniture and equipment	18,922	0	0	18,922
Infrastructure	97,636	17,219	0	114,855
Total accumulated depreciation	<u>273,598</u>	<u>31,356</u>	<u>0</u>	<u>304,954</u>
Net capital assets	<u>\$ 758,797</u>	<u>\$ (31,356)</u>	<u>\$ 0</u>	<u>\$ 727,441</u>

In fiscal year 2015, depreciation expense was charged to governmental functions as follows:

General government	\$ 4,762
Public works	<u>26,594</u>
	<u>\$ 31,356</u>

NOTE 6 - 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 or termination. At June 30, 2015, accrued vacation pay is \$17,249.

NOTE 7 – LONG-TERM OBLIGATIONS

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

	7/1/2014	Additions	Deletions	6/30/2015	Amount Due Within A Year
General obligations:					
KIA sewer loan	\$ 219,842	\$ 0	\$ 10,067	\$ 209,775	\$ 10,372
KLC building lease	322,895	0	9,907	312,988	10,264
	<u>542,737</u>	<u>0</u>	<u>19,974</u>	<u>522,763</u>	<u>20,636</u>
Compensated absences	17,249	0	0	17,249	0
Swap agreement	47,694	0	0	47,694	0
	<u>\$ 607,680</u>	<u>\$ 0</u>	<u>\$ 19,974</u>	<u>\$ 587,706</u>	<u>\$ 20,636</u>

KIA Sewer Loan - In March 2010, the City borrowed \$248,294 through the Kentucky Infrastructure Authority to be repaid over 20 years at a fixed rate of 3.00%. The proceeds were used to fund the sewer tap fees and assessments of the City's taxpayers. Principal and interest paid in the fiscal year was \$10,067 and \$6,888 respectively.

KLC building lease - In June 2008, the City borrowed \$375,000 through the Kentucky League of Cities, through a Master Bond Pool, to be repaid over 28 years at a fixed rate of 3.95%. The proceeds were used to purchase a building, to be used by the City's public works department. Principal and interest paid in the fiscal year was \$9,907 and \$16,056 respectively.

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

Year Ending June 30	KIA sewer loan		KLC building lease		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 10,373	\$ 6,561	\$ 10,265	\$ 15,608	\$ 20,638	\$ 22,169
2017	10,688	6,225	10,692	15,071	21,380	21,296
2018	11,013	5,878	11,083	14,582	22,096	20,460
2019	11,348	5,520	11,507	14,050	22,855	19,570
2020	11,694	5,152	11,928	13,522	23,622	18,674
2021 - 2025	64,025	8,798	66,929	58,477	130,954	67,275
2026 - 2030	74,372	11,141	80,692	41,229	155,064	52,370
2031 - 2035	16,262	283	97,305	20,407	113,567	20,690
2035 - 2036	0	0	12,587	836	12,587	836
	<u>\$ 209,775</u>	<u>\$ 49,558</u>	<u>\$ 312,988</u>	<u>\$ 193,782</u>	<u>\$ 522,763</u>	<u>\$ 243,340</u>

NOTE 8 – INTEREST RATE SWAP AGREEMENT

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

The following table sets forth the City’s interest rate swap agreement at June 30, 2015:

	Notional Amount	Termination	Fair Value
Pay-fixed interest rate swap	\$ 322,897	01/01/2036	(\$47,694)

NOTE 9 - EMPLOYEE RETIREMENT

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

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

Plan description—Employees whose positions do not require a degree beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute (“KRS”) Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

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

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

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

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

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

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the City reported a liability for its proportionate share of the net pension liability for CERS. The amount recognized by the City as its proportionate share of the net pension liability that was associated with the City were as follows:

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

City's proportionate share of the CERS net pension liability	<u>\$ 105,000</u>
	<u>\$ 105,000</u>

The City's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2014, the City's proportion was .03231% percent.

For the year ended June 30, 2015, the City recognized pension expense of \$12,004 related to CERS. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 0	\$ 0
Changes of assumptions	0	0
Net difference between projected and actual earnings on pension plan investments	0	12,000
Changes in proportion and differences between Board contributions and proportionate share of contributions	0	0
City contributions subsequent to the measurement date	17,649	0
	\$ 17,649	\$ 12,000

\$17,649 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows: \$5,645.

Actuarial assumptions—The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	CERS
Inflation	3.50%
Projected salary increases	4.50%
Investment rate of return, net of investment expense & inflation	7.75%

For CERS, Mortality rates for the period after service retirement are according to the 1983 Group Annuity Mortality Table for all retired employees and beneficiaries as of June 30, 2006 and the 1994 Group Annuity Mortality Table for all other employees. The Group Annuity Mortality Table set forward five years is used for the period after disability retirement.

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years. The most recent analysis, performed for the period covering fiscal years 2005 through 2008, is outlined in a report dated August 25, 2009. 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.

Discount rate—For CERS, the discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.75%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of CERS proportionate share of net pension liability to changes in the discount rate—The following table presents the net pension liability of the City, calculated using the discount rates selected by each pension system, as well as what the City’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate (I calculated the amounts in this schedule:

	1% Decrease	Current Discount Rate	1% Increase
CERS	6.75%	7.75%	8.75%
City's proportionate share of net pension liability	\$ 91,452	\$ 105,000	\$ 118,548

Pension plan fiduciary net position—Detailed information about the pension plan’s fiduciary net position is available in the separately issued financial reports of CERS.

NOTE 10 – CONTINGENCIES

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

result upon adjudication of this and similar cases has been made in the accompanying financial statements.

NOTE 11 – 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, 2015 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 12 – SUBSEQUENT EVENTS

The City evaluated subsequent events through January 11, 2016, which is the date the financial statements were available to be issued. No subsequent events were identified that required adjustment or disclosure within 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*

Honorable Mayor
Members of the City Council
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 (City), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise City's basic financial statements, and have issued our report thereon dated January 11, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City's internal control. Accordingly, we do not express an opinion on the effectiveness of City'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 a 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on

compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Union, Kentucky's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying schedule of findings. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express not opinion on it.

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.

Maddox & Associates CPAs Inc.

January 11, 2016

Fort Thomas, Kentucky

CURRENT YEAR COMMENTS

Finding 2015-1 Segregation of Duties

Internal controls are designed to safeguard assets and prevent or detect losses from employee dishonesty or error. A fundamental concept in a good system of internal control is the segregation of duties. Although the City does not have enough employees to follow this concept, we believe the City should have an awareness of the condition and that there should be a continuing effort to implement policies that improve existing internal control without impairing efficiency.

1. Closely review the monthly treasurers' report
2. Closely review and approve all disbursements.
3. Closely monitor and investigate all significant variations between the approved budget and actual cash receipts and disbursements

While these procedures will not entirely eliminated the potential risk of misstatement, their implementation will assist in reducing the risk to a tolerable level given the circumstances.

PRIOR YEAR COMMENTS

Finding 2014-1 Segregation of Duties

Same as current year finding.