

**CITY OF UNION, OHIO**

**Basic Financial Statements**

**December 31, 2006**

**with**

**Independent Auditors' Report**





Mary Taylor, CPA  
Auditor of State

Members of Council  
City of Union  
118 North Main Street  
Union, Ohio 45322

We have reviewed the *Independent Auditors' Report* of the City of Union, Montgomery County, prepared by Clark, Schaefer, Hackett & Co., for the audit period January 1, 2006 through December 31, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The City of Union is responsible for compliance with these laws and regulations.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

May 1, 2008

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## CITY OF UNION, OHIO

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**Clark, Schaefer, Hackett & Co.**  
CERTIFIED PUBLIC ACCOUNTANTS  
BUSINESS CONSULTANTS  
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### **Independent Auditors' Report**

Members of City Council  
City of Union, Ohio  
118 North Main Street  
Union, Ohio 45322

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the remaining fund information of the City of Union, Ohio (the City) as of and for the year ended December 31, 2006, 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'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 basic 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 basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Union, Ohio as of December 31, 2006, and the respective change in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general, police, fire/ems, street light, and refuse funds 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 our report dated April 1, 2008 on our consideration of the City of Union's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

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

*Clark, Schaefer, Hackett & Co.*

Springfield, Ohio  
April 1, 2008

**CITY OF UNION**  
**MONTGOMERY COUNTY, OHIO**  
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For the Year Ended December 31, 2006  
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The discussion and analysis of the City of Union's financial performance provides an overview of the City's financial activities for the year ended December 31, 2006. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements to enhance their understanding of the City's financial performance.

**FINANCIAL HIGHLIGHTS**

Key financial highlights for 2006 are as follows:

- Governmental activities reported a positive net change in net assets of \$385,190 a 10.8% increase. The increase is primarily due to City issuing debt, the proceeds of which had not been fully expended prior to year end.
- Business-type activities reported a positive net change in net assets of \$33,210, a 0.3% increase. Fiscal year 2005 experienced a greater increase in net assets due to receiving contributed capital that was not received in the current year.
- The General Fund reported a fund balance of \$185,250 which represents an increase of \$57,620 or 45.1%. Change in fund balance is consistent with prior year.
- On the budget basis, actual revenues exceeded actual expenditures in the General Fund by \$122,393 which increases the unencumbered cash balance to \$300,765.

**Using this Annual Financial Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized to provide the reader with an overview of the City's condition as a whole and then proceed to provide a more detailed view of the City's operations.

The Statement of Net Assets and the Statement of Activities provide the overview of the whole City, with a longer-term outlook of the City's financial condition. Major fund financial statements provide the next level of detail, providing information on short-term activities with a focus on the City's six significant funds. The remaining non-major funds are presented in total in one column.

**Reporting the City as a Whole**

*Statement of Net Assets and the Statement of Activities*

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did the City do financially in 2006?" The Statement of Net Assets and the Statement of Activities answers this question. These statements include all assets and liabilities of the City using the accrual basis of accounting, similar to the accounting methods used by private-sector companies. This basis of accounting takes into account all of the current year's revenue and expenses, regardless of when cash was received or paid.

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These two statements report the City's net assets and the change in those assets from the prior year. Net assets can be defined as the difference between assets and liabilities, and the measurement of this difference can be used to monitor the City's financial health. Other factors must then be considered, such as the City's property tax base, the condition of the streets and other capital assets, and the growth or decline in area businesses and residential neighborhoods.

In the Statement of Net Assets and the Statement of Activities, the City is divided into two kinds of activities.

- **Governmental Activities** – Most of the City's services are reported here and include police, fire, emergency medical, public maintenance, parks and recreation, judicial, legislative, and executive.
- **Business-Type Activities** – These services include water, sewer, and storm water. Service fees for these operations are charged based upon usage. The intent is that the fees are sufficient to cover the costs of operation.

### **Reporting the City's Most Significant Funds**

#### *Fund Financial Statements*

The analysis of the City's major funds begins after the Statement of Activities. Fund financial statements provide the detailed information about the General, Police, Fire/EMS, Street Light, Refuse and Street Levy funds. The City uses many different funds, some of which are required by law and others are used to help segregate and control revenues intended for specific purposes. The City has two kinds of funds - "governmental" and "proprietary". The proprietary funds support the business-type activities.

*Governmental Funds* – Most of the City's basic services are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances remaining at year-end that are available for spending. These funds are reported using the modified accrual basis of accounting, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a 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 available in the near future to finance City programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

*Proprietary Funds* – City utility services for water, sewer, and storm water are operated as enterprise funds. These are business-type activities that receive a significant portion of their funding from user charges. These funds are listed under the heading of "business-type activities" on the Statement of Net Assets and the Statement of Activities and reported in much the same manner as the governmental funds. The reader should note

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that these funds are a part of the "government-wide" statements, but not a part of the "governmental funds".

*Notes to the Basic Financial Statements* – The notes provide additional information that is essential to a full understanding of the data provided in the governmental-wide and fund financial statements.

**The City as a Whole**

The Statement of Net Assets provides a perspective of the City as a whole.

Table 1 provides a summary of the City's net assets for the year ended December 31, 2006 as compared to December 31, 2005.

**TABLE 1**  
Statement of Net Assets, December 31

	2006			2005		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
Assets:						
Current and Other Assets	\$ 4,457,185	665,447	5,122,632	3,328,319	695,734	4,024,053
Capital Assets	<u>3,324,405</u>	<u>9,346,760</u>	<u>12,671,165</u>	<u>2,684,054</u>	<u>9,340,714</u>	<u>12,024,768</u>
Total Assets	<u>7,781,590</u>	<u>10,012,207</u>	<u>17,793,797</u>	<u>6,012,373</u>	<u>10,036,448</u>	<u>16,048,821</u>
Liabilities:						
Current and Other Liabilities	3,600,305	399,568	3,999,873	2,179,297	450,991	2,630,288
Long-term Liabilities	<u>218,678</u>	<u>53,167</u>	<u>271,845</u>	<u>255,659</u>	<u>59,195</u>	<u>314,854</u>
Total Liabilities	<u>3,818,983</u>	<u>452,735</u>	<u>4,271,718</u>	<u>2,434,956</u>	<u>510,186</u>	<u>2,945,142</u>
Net Assets:						
Invested in Capital Assets, Net of Related Debt	1,742,099	8,989,968	10,732,067	2,207,057	8,925,401	11,132,458
Restricted	452,952	-	452,952	765,733	-	765,733
Unrestricted	<u>1,767,556</u>	<u>569,504</u>	<u>2,337,060</u>	<u>604,627</u>	<u>600,861</u>	<u>1,205,488</u>
Total Net Assets	<u>\$ 3,962,607</u>	<u>9,559,472</u>	<u>13,522,079</u>	<u>3,577,417</u>	<u>9,526,262</u>	<u>13,103,679</u>

The amount by which the City's assets exceeded its liabilities is called net assets. As of December 31, 2006 the City's net assets were \$13.5 million. Of this amount, \$10.7 million was invested in capital assets and \$0.5 million was subject to external restrictions for its use. The remaining amount, \$2.3 million, was unrestricted and available for future use as directed by City Council and the City administration.

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The following table shows the changes in net assets for the year ended December 31, 2005 as compared to fiscal year ended December 31, 2006.

**TABLE 2**  
Change in Net Assets

	<u>Governmental</u>		<u>Business-type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<b>REVENUES:</b>						
Program Revenues:						
Charges for Services	\$ 1,088,065	1,007,176	1,294,826	1,220,552	2,382,891	2,227,728
Operating Grants and Contributions	629,709	593,455	-	-	629,709	593,455
Capital Grants and Contributions	80,738	17,240	149,243	554,384	229,981	571,624
General Revenues:						
Property Taxes	1,469,219	1,470,144	-	-	1,469,219	1,470,144
Grants and Contributions not Restricted	268,028	172,587	-	-	268,028	172,587
Investment Income	77,674	21,025	18,782	13,947	96,456	34,972
Other Revenue	12,620	240,043	20,355	31,623	32,975	271,666
Transfers	-	(24,371)	-	24,371	-	-
Total Revenue	<u>3,626,053</u>	<u>3,542,065</u>	<u>1,483,206</u>	<u>1,844,877</u>	<u>5,109,259</u>	<u>5,342,176</u>
<b>EXPENSES:</b>						
General Government	558,970	304,555	-	-	558,970	304,555
Security of Persons and Property	1,594,878	1,643,168	-	-	1,594,878	1,643,168
Public Health Services	15,117	12,364	-	-	15,117	12,364
Transportation	554,236	288,011	-	-	554,236	288,011
Community Environment	378,627	343,449	-	-	378,627	343,449
Leisure Time Activities	120,940	77,175	-	-	120,940	77,175
Water	-	-	520,111	509,225	520,111	509,225
Sewer	-	-	705,841	684,800	705,841	684,800
Stormwater	-	-	224,044	117,074	224,044	117,074
Other Business-Type Activities	-	-	-	477	-	477
Interest Expense	18,096	17,433	-	-	18,096	17,433
Total Expenses	<u>3,240,864</u>	<u>2,686,155</u>	<u>1,449,996</u>	<u>1,311,576</u>	<u>4,690,860</u>	<u>3,997,731</u>
Change in Net Assets	385,190	811,144	33,210	533,301	418,400	1,344,445
Net Assets, Beginning of Year	<u>3,577,417</u>	<u>2,766,273</u>	<u>9,526,262</u>	<u>8,992,961</u>	<u>13,103,679</u>	<u>11,759,234</u>
Net Assets, End of Year	<u>\$ 3,962,607</u>	<u>3,577,417</u>	<u>9,559,472</u>	<u>9,526,262</u>	<u>13,522,079</u>	<u>13,103,679</u>

***Governmental Activities***

The two functions with the largest expenditures are Security of Persons and Property and General Government. Security of Persons and Property includes the Divisions of Police, Fire, and Emergency Medical Services. In addition to the revenue received for charges for services, the Public Safety Division receives property tax revenues to cover net expenses of \$794,664. General Government, the next highest function, includes all expenses associated with administration, city council and other general operating expenses at a cost of \$558,970.

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***Business-Type Activities***

Overall, the City's business-type activities generated \$1.3 million in operating revenues, which did not cover the cost of doing business of \$1.4 million, resulting in an operating loss of \$113,227. Capital grants and contributions of \$149,243 were used to offset the operating loss and to purchase capital assets. Fees for usage are increased as necessary to cover the costs of these essential services.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted state entitlements.

**TABLE 3**  
Total and Cost of Program Services

	<u>2006</u>		<u>2005</u>	
	<u>Total Cost of Service</u>	<u>Net Cost of Service</u>	<u>Total Cost of Service</u>	<u>Net Cost of Service</u>
<b>GOVERNMENTAL ACTIVITIES:</b>				
General Government	\$ 558,970	(209,425)	304,555	9,882
Security of Persons and Property	1,594,878	(794,664)	1,643,168	(923,326)
Public Health Services	15,117	(2,981)	12,364	(1,447)
Transportation	554,236	(200,621)	288,011	28,606
Community Environment	378,627	(142,740)	343,449	(131,255)
Leisure Time Activities	120,940	(73,824)	77,175	(33,311)
Interest Expense	<u>18,096</u>	<u>(18,096)</u>	<u>17,433</u>	<u>(17,433)</u>
Total Expenses	\$ <u>3,240,864</u>	<u>(1,442,351)</u>	<u>2,686,155</u>	<u>(1,068,284)</u>
<b>BUSINESS-TYPE ACTIVITIES:</b>				
Water	\$ 520,111	(24,436)	509,225	84,275
Sewer	705,840	(9,750)	684,800	56,659
Stormwater	224,045	28,259	117,074	322,903
Other Business-Type Activities	<u>-</u>	<u>-</u>	<u>477</u>	<u>(477)</u>
Total Expenses	\$ <u>1,449,996</u>	<u>(5,927)</u>	<u>1,311,576</u>	<u>463,360</u>

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**THE CITY'S FUNDS**

The balance sheet for the City's major governmental funds is reflected on pages 12 – 13. These funds are reported using a modified accrual basis of accounting. Total governmental fund balances are \$471,635, of which \$430,712 is unreserved. Revenues and expenditures are reflected on pages 14 – 15. The net change in fund balances is a decrease of \$241,810.

The General Fund balance increased by \$57,620, caused by an increase in intergovernmental revenue.

Fund balance in the Police Fund increased by \$9,901 to \$37,033. The change in fund balance from prior years is largely in part to the City passing a tax levy to increase services.

The Fire/EMS fund reported a fund balance decrease of \$465,140 due to the City beginning construction on the fire station.

Fund balance in the Street Light fund decreased by \$37,642 to \$170,444 due to City purchasing a bucket truck.

The Refuse fund experienced an increase of \$40,676 in fund balance due to an increase in revenue with costs consistent with the prior year.

The Street Levy fund reported an increase of \$90,704, due to grant revenues received for construction on Old Springfield Road.

Other Governmental funds showed an increase over 2005 of \$62,071 or 26.4%. This increase was due to decreases in expenditures relative to revenues.

The proprietary funds showed a net operating loss of \$113,227. This decrease is primarily due to an increase in operating expenditures with no corresponding increase in operating revenues.

***General Fund Budgeting Highlights***

For the General Fund, actual budget basis revenue was \$670,679 as compared to the final and original budget estimates of \$556,026. The variance between actual and budget basis revenue is primarily due to the City receiving reimbursement for capital projects that was not anticipated at the time of budget preparation.

Total actual expenditures on the budget basis were \$649,696, \$20,983 below revenues. However, actual expenditures were \$45,530 below final budget estimates.

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**CAPITAL ASSETS**

At December 31, 2006, the City has invested in land, construction in progress, buildings and equipment with amounts totaling \$3.3 million and \$9.3 million in governmental activities and business-type activities, respectively. Table 4 shows December 31, 2006 balances compared to December 31, 2005 amounts. Additional information regarding the City's capital assets can be found in the Notes to the Basic Financial Statements in Note 8.

**TABLE 4**  
Capital Assets, December 31

	2006			2005		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
Land	\$ 598,006	-	598,006	598,006	-	598,006
Construction in Progress	387,529	44,912	432,441	67,015	18,123	85,138
Infrastructure	728,679	10,969,028	11,697,707	603,644	10,694,762	11,298,406
Buildings	919,919	3,170,236	4,090,155	919,919	3,170,236	4,090,155
Equipment	1,727,479	836,335	2,563,814	1,497,716	784,110	2,281,826
Vehicles	569,208	54,447	623,655	393,246	40,106	433,352
Less: Accumulated						
Depreciation	(1,606,415)	(5,728,198)	(7,334,613)	(1,395,492)	(5,366,623)	(6,762,115)
Totals	\$ 3,324,405	9,346,760	12,671,165	2,684,054	9,340,714	12,024,768

Overall, capital assets increased approximately \$646,000 from December 31, 2005. The increase in capital assets related primarily to the addition of infrastructure and the construction of an addition to the existing fire department building.

**DEBT ADMINISTRATION**

At December 31, 2006, the City's long-term debt consisted of two capital leases. During fiscal year 2005 the City entered into two capital leases for the purchase of a bucket truck and an ambulance. The third capital lease was entered into in 2001 to acquire a mower and was paid off at year end. The leases for the bucket truck and ambulance are paid from governmental funds.

Under current state statutes, the City's general obligation bonded debt issuances are subject to a legal limitation based on the total assessed value of real and personal property. As of December 31, 2006, the City's legal debt margin was \$10,045,571.

See Notes 13 and 15 of the Notes to the Basic Financial Statements for more detailed information on long-term debt of the City.

**CONTACTING THE CITY'S FINANCE DEPARTMENT**

This financial report is designed to provide our citizens, taxpayers, creditors, and investors with a general overview of the City's finances and to show the City's accountability for the revenues it receives. If you have any questions regarding this report or need additional information, contact Denise Winemiller, Finance Director, City of Union, 118 North Main Street, Union, Ohio 45322.

**CITY OF UNION**  
**MONTGOMERY COUNTY, OHIO**

Statement of Net Assets  
December 31, 2006

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS:</b>			
Equity in Pooled Cash and Cash Equivalents	\$ 1,965,811	572,840	2,538,651
Receivables (net of allowances for uncollectibles):			
Taxes	1,500,342	-	1,500,342
Accounts	63,711	84,947	148,658
Special Assessments	540,576	-	540,576
Due from Other Governments	345,822	-	345,822
Prepaid Items	13,224	7,660	20,884
Materials and Supplies Inventory	27,699	-	27,699
Capital Assets:			
Capital assets not subject to depreciation:			
Land	598,006	-	598,006
Construction in Progress	387,529	44,912	432,441
Capital assets, net of accumulated depreciation	<u>2,338,870</u>	<u>9,301,848</u>	<u>11,640,718</u>
 Total Assets	 <u>7,781,590</u>	 <u>10,012,207</u>	 <u>17,793,797</u>
<b>LIABILITIES:</b>			
Accounts Payable	137,253	14,792	152,045
Accrued Wages and Benefits	18,557	6,257	24,814
Due to Other Governments	53,127	14,446	67,573
Accrued Interest Payable	5,851	7,281	13,132
Deferred Revenue	1,968,909	-	1,968,909
Notes Payable	1,416,608	356,792	1,773,400
Noncurrent Liabilities:			
Due Within One Year	67,542	15,500	83,042
Due In More Than One Year	151,136	37,667	188,803
 Total Liabilities	 <u>3,818,983</u>	 <u>452,735</u>	 <u>4,271,718</u>
<b>NET ASSETS:</b>			
Invested in capital assets, net of related debt	1,742,099	8,989,968	10,732,067
Restricted for:			
Other Purposes	452,952	-	452,952
Unrestricted	<u>1,767,556</u>	<u>569,504</u>	<u>2,337,060</u>
 Total Net Assets	 <u>\$ 3,962,607</u>	 <u>9,559,472</u>	 <u>13,522,079</u>

See accompanying notes to the basic financial statements.

**CITY OF UNION**  
**MONTGOMERY COUNTY, OHIO**  
Statement of Activities  
For the Year Ended December 31, 2006

<b>Functions/Programs:</b>	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities:</b>							
Security of Persons and Property	\$ 1,594,878	484,116	316,098	-	(794,664)		(794,664)
Public Health Services	15,117	7,342	4,794	-	(2,981)		(2,981)
Leisure Time Activities	120,940	29,501	17,615	-	(73,824)		(73,824)
Community Environment	378,627	142,707	93,180	-	(142,740)		(142,740)
Transportation	554,236	212,933	59,944	80,738	(200,621)		(200,621)
General Government	558,970	211,467	138,078	-	(209,425)		(209,425)
Interest Expense	18,096	-	-	-	(18,096)		(18,096)
Total Governmental Activities	<u>3,240,864</u>	<u>1,088,066</u>	<u>629,709</u>	<u>80,738</u>	<u>(1,442,351)</u>		<u>(1,442,351)</u>
<b>Business-Type Activities:</b>							
Water	520,111	495,675	-	-		(24,436)	(24,436)
Sewer	705,840	696,090	-	-		(9,750)	(9,750)
Stormwater	224,045	103,061	-	149,243		28,259	28,259
Total Business-Type Activities	<u>1,449,996</u>	<u>1,294,826</u>	<u>-</u>	<u>149,243</u>		<u>(5,927)</u>	<u>(5,927)</u>
Total	\$ <u>4,690,860</u>	<u>2,382,892</u>	<u>629,709</u>	<u>229,981</u>	<u>(1,442,351)</u>	<u>(5,927)</u>	<u>(1,448,278)</u>
<b>General Revenues:</b>							
<b>Taxes:</b>							
Property Taxes Levied for:							
General Operations					170,266	-	170,266
Public Safety					1,077,768	-	1,077,768
Street Maintenance and Repair					221,185	-	221,185
Grants and Contributions not Restricted to Specific Programs					268,028	-	268,028
Investment Income					77,674	18,782	96,456
Other Revenue					12,620	20,355	32,975
Total General Revenues					<u>1,827,541</u>	<u>39,137</u>	<u>1,866,678</u>
Change in Net Assets							
					385,190	33,210	418,400
Net Assets, Beginning of Year					<u>3,577,417</u>	<u>9,526,262</u>	<u>13,103,679</u>
Net Assets, End of Year					\$ <u>3,962,607</u>	<u>9,559,472</u>	<u>13,522,079</u>

See accompanying notes to the basic financial statements.

**CITY OF UNION**  
**MONTGOMERY COUNTY, OHIO**

Balance Sheet  
Governmental Funds  
December 31, 2006

	General Fund	Police Fund	Fire/EMS Fund	Street Light Fund	Refuse Fund
<b>ASSETS:</b>					
Cash and Cash Equivalents	\$ 206,924	118,748	987,742	171,627	81,975
Receivables					
Taxes	171,494	712,023	370,281	-	-
Accounts	30,031	-	-	-	33,680
Special Assessments	-	-	-	540,576	-
Due from Other Governments	120,138	45,943	23,754	-	-
Prepaid Items	2,830	2,588	6,430	-	556
Materials and Supplies Inventory	7,474	-	-	-	-
	<u>538,891</u>	<u>879,302</u>	<u>1,388,207</u>	<u>712,203</u>	<u>116,211</u>
Total Assets	\$				
<b>LIABILITIES:</b>					
Accounts Payable	\$ 1,766	6,967	101,998	57	24,817
Accrued Wages and Benefits	3,128	9,059	1,463	290	1,143
Due to Other Governments	5,110	6,477	13,351	836	3,257
Accrued Interest Payable	1,146	1,146	-	-	-
Deferred Revenue	281,837	757,966	394,035	540,576	-
Notes Payable	60,654	60,654	1,200,000	-	-
	<u>353,641</u>	<u>842,269</u>	<u>1,710,847</u>	<u>541,759</u>	<u>29,217</u>
Total Liabilities					
<b>FUND BALANCES:</b>					
Reserved for:					
Materials and Supplies Inventory	7,474	-	-	-	-
Prepaid Items	2,830	2,588	6,430	-	556
Unreserved, Undesignated:					
General Fund	174,946	-	-	-	-
Special Revenue Funds	-	34,445	(329,070)	170,444	86,438
Capital Projects Funds	-	-	-	-	-
	<u>185,250</u>	<u>37,033</u>	<u>(322,640)</u>	<u>170,444</u>	<u>86,994</u>
Total Fund Balances					
Total Liabilities and Fund Balances	\$ <u>538,891</u>	<u>879,302</u>	<u>1,388,207</u>	<u>712,203</u>	<u>116,211</u>

See accompanying notes to the basic financial statements.

Reconciliation of Total Governmental Fund Balances  
to Net Assets of Governmental Activities

Street Levy Fund	Nonmajor Governmental Funds	Total Governmental Funds
117,712	281,083	1,965,811
218,593	27,951	1,500,342
-	-	63,711
-	-	540,576
14,019	141,968	345,822
-	820	13,224
-	<u>20,225</u>	<u>27,699</u>
<u>350,324</u>	<u>472,047</u>	<u>4,457,185</u>
276	1,372	137,253
191	3,283	18,557
1,000	23,096	53,127
3,559	-	5,851
232,612	147,128	2,354,154
<u>95,300</u>	<u>-</u>	<u>1,416,608</u>
<u>332,938</u>	<u>174,879</u>	<u>3,985,550</u>
-	20,225	27,699
-	820	13,224
-	-	174,946
-	276,123	238,380
<u>17,386</u>	<u>-</u>	<u>17,386</u>
<u>17,386</u>	<u>297,168</u>	<u>471,635</u>
<u>350,324</u>	<u>472,047</u>	<u>4,457,185</u>

Total Governmental Fund Balances	\$ 471,635
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.	3,324,405
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.	385,245
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Capital Lease Obligation	(165,698)
Compensated Absences	<u>(52,980)</u>
Net Assets of Governmental Activities	\$ <u>3,962,607</u>

**CITY OF UNION**  
**MONTGOMERY COUNTY, OHIO**  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended December 31, 2006

	General Fund	Police Fund	Fire/EMS Fund	Street Light Fund	Refuse Fund
<b>REVENUES:</b>					
Property Taxes	\$ 171,646	721,642	379,002	-	-
Intergovernmental Revenue	268,028	105,264	57,332	-	-
Charges for Services	74,893	-	102,528	-	415,754
Special Assessments	-	-	-	370,886	-
Fines, Licenses and Permits	88,928	-	-	-	-
Investment Income	9,808	5,022	28,196	15,691	3,084
Other Revenue	2,909	905	750	162	-
<b>Total Revenues</b>	<u>616,212</u>	<u>832,833</u>	<u>567,808</u>	<u>386,739</u>	<u>418,838</u>
<b>EXPENDITURES:</b>					
Current:					
Security of Persons and Property	-	782,761	1,012,714	401,935	-
Public Health Services	-	-	-	-	-
Leisure Time Activities	-	-	-	-	-
Community Environment	-	-	-	-	378,162
Transportation	-	-	-	-	-
General Government	496,440	-	-	-	-
Debt Service:					
Principal	-	-	26,713	18,332	-
Interest	2,817	2,470	4,505	4,114	-
<b>Total Expenditures</b>	<u>499,257</u>	<u>785,231</u>	<u>1,043,932</u>	<u>424,381</u>	<u>378,162</u>
Excess (Deficiency) of Revenues Over/ (Under) Expenditures	<u>116,955</u>	<u>47,602</u>	<u>(476,124)</u>	<u>(37,642)</u>	<u>40,676</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Proceeds from Sale of Capital Assets	-	4,299	649	-	-
Transfers In	23,665	-	34,000	-	-
Transfers Out	(83,000)	(42,000)	(23,665)	-	-
<b>Total Other Financing Sources (Uses)</b>	<u>(59,335)</u>	<u>(37,701)</u>	<u>10,984</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	57,620	9,901	(465,140)	(37,642)	40,676
Fund Balance, Beginning of Year	127,630	27,132	142,500	208,086	46,318
Fund Balance, End of Year	\$ <u>185,250</u>	<u>37,033</u>	<u>(322,640)</u>	<u>170,444</u>	<u>86,994</u>

See accompanying notes to the basic financial statements.

Reconciliation of the Statement of Revenues, Expenditures  
and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities

Street Levy Fund	Nonmajor Governmental Funds	Total Governmental Funds
223,401	27,919	1,523,610
197,172	346,617	974,413
-	30,478	623,653
-	-	370,886
-	4,600	93,528
5,919	9,954	77,674
-	1,544	6,270
<u>426,492</u>	<u>421,112</u>	<u>3,670,034</u>
-	74,926	2,272,336
-	15,113	15,113
-	120,876	120,876
-	-	378,162
331,597	239,865	571,462
-	665	497,105
-	-	45,045
4,191	-	18,097
<u>335,788</u>	<u>451,445</u>	<u>3,918,196</u>
<u>90,704</u>	<u>(30,333)</u>	<u>(248,162)</u>
-	1,404	6,352
-	91,000	148,665
-	-	(148,665)
<u>-</u>	<u>92,404</u>	<u>6,352</u>
90,704	62,071	(241,810)
<u>(73,318)</u>	<u>235,097</u>	<u>713,445</u>
<u>17,386</u>	<u>297,168</u>	<u>471,635</u>

Total Net Change in Fund Balances - Governmental Funds	\$ (241,810)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. The current year activity related to the City's governmental capital assets follows:	
Capital Asset Additions	851,274
Current Year Depreciation	(210,923)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(50,332)
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	45,045
Some expenses in reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:	
Compensated Absences	<u>(8,064)</u>
Change in Net Assets of Governmental Activities	\$ <u>385,190</u>

**CITY OF UNION**  
**MONTGOMERY COUNTY, OHIO**  
Statement of Revenues, Expenditures and Changes  
In Fund Balance - Budget (Non-GAAP Basis) and Actual  
General Fund  
For the Year Ended December 31, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
Property Taxes	\$ 164,900	164,900	171,646	6,746
Intergovernmental Revenue	308,646	308,646	325,979	17,333
Charges for Services	62,264	62,264	74,893	12,629
Fines, Licenses and Permits	57,180	57,180	88,928	31,748
Investment Income	1,300	1,300	9,198	7,898
Other Revenue	-	-	35	35
<b>Total Revenues</b>	<b>594,290</b>	<b>594,290</b>	<b>670,679</b>	<b>76,389</b>
Expenditures:				
Current:				
General Government	402,930	501,026	456,006	45,020
Debt Service:				
Principal	194,383	191,383	190,873	510
Interest	2,817	2,817	2,817	-
<b>Total Expenditures</b>	<b>600,130</b>	<b>695,226</b>	<b>649,696</b>	<b>45,530</b>
Excess of Revenues Over (Under) Expenditures	(5,840)	(100,936)	20,983	121,919
Other Financing Sources (Uses):				
Proceeds from Sale of Bonds	187,200	187,200	184,410	(2,790)
Transfers Out	(83,000)	(83,000)	(83,000)	-
<b>Total Other Financing Sources (Uses)</b>	<b>104,200</b>	<b>104,200</b>	<b>101,410</b>	<b>(2,790)</b>
Net Change in Fund Balance	98,360	3,264	122,393	119,129
Fund Balance, Beginning of Year	178,372	178,372	178,372	-
Fund Balance, End of Year	\$ 276,732	181,636	300,765	119,129

See accompanying notes to the basic financial statements.

**CITY OF UNION**  
**MONTGOMERY COUNTY, OHIO**  
Statement of Revenues, Expenditures and Changes  
In Fund Balance - Budget (Non-GAAP Basis) and Actual  
Police Fund  
For the Year Ended December 31, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>Revenues:</b>				
Property Taxes	\$ 691,000	691,000	721,642	30,642
Intergovernmental Revenue	95,100	95,100	105,264	10,164
Investment Income	500	500	5,022	4,522
Other Revenue	-	-	905	905
<b>Total Revenues</b>	<b>786,600</b>	<b>786,600</b>	<b>832,833</b>	<b>46,233</b>
<b>Expenditures:</b>				
<b>Current:</b>				
Security of Persons and Property	799,600	799,600	772,710	26,890
Principal	7,530	7,530	7,420	110
Interest	2,470	2,470	2,470	-
<b>Total Expenditures</b>	<b>809,600</b>	<b>809,600</b>	<b>782,600</b>	<b>27,000</b>
Excess of Revenues Over (Under) Expenditures	(23,000)	(23,000)	50,233	73,233
<b>Other Financing Sources (Uses):</b>				
Proceeds from Sale of Capital Assets	-	-	4,299	4,299
Transfers Out	(42,000)	(42,000)	(42,000)	-
<b>Total Other Financing Sources (Uses)</b>	<b>(42,000)</b>	<b>(42,000)</b>	<b>(37,701)</b>	<b>4,299</b>
Net Change in Fund Balance	(65,000)	(65,000)	12,532	77,532
Fund Balance, Beginning of Year	106,216	106,216	106,216	-
Fund Balance, End of Year	\$ 41,216	41,216	118,748	77,532

See accompanying notes to the basic financial statements.

**CITY OF UNION**  
**MONTGOMERY COUNTY, OHIO**  
Statement of Revenues, Expenditures and Changes  
In Fund Balance - Budget (Non-GAAP Basis) and Actual  
Fire/EMS Fund  
For the Year Ended December 31, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
Property Taxes	\$ 360,500	360,500	379,002	18,502
Intergovernmental Revenue	48,350	48,350	57,332	8,982
Charges for Services	100,000	100,000	102,528	2,528
Investment Income	200	200	24,048	23,848
Other Revenue	-	-	750	750
<b>Total Revenues</b>	<b>509,050</b>	<b>509,050</b>	<b>563,660</b>	<b>54,610</b>
Expenditures:				
Current:				
Security of Persons and Property	601,750	2,233,932	942,445	1,291,487
Debt Service:				
Principal	25,100	25,100	23,665	1,435
<b>Total Expenditures</b>	<b>626,850</b>	<b>2,259,032</b>	<b>966,110</b>	<b>1,292,922</b>
Excess of Revenues Over (Under) Expenditures	(117,800)	(1,749,982)	(402,450)	1,347,532
Other Financing Sources:				
Proceeds from Sale of Notes	-	1,632,182	1,204,148	(428,034)
Proceeds from Sale of Capital Assets	-	-	649	649
Transfers In	34,000	34,000	34,000	-
<b>Total Other Financing Sources</b>	<b>34,000</b>	<b>1,666,182</b>	<b>1,238,797</b>	<b>(427,385)</b>
Net Change in Fund Balance	(83,800)	(83,800)	836,347	920,147
Fund Balance, Beginning of Year	141,750	141,750	141,750	-
Fund Balance, End of Year	\$ 57,950	57,950	978,097	920,147

See accompanying notes to the basic financial statements.

**CITY OF UNION**  
**MONTGOMERY COUNTY, OHIO**  
Statement of Revenues, Expenditures and Changes  
In Fund Balance - Budget (Non-GAAP Basis) and Actual  
Street Light Fund  
For the Year Ended December 31, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
Special Assessments	\$ 333,000	363,000	370,886	7,886
Investment Income	500	500	15,691	15,191
Other Revenue	-	-	162	162
Total Revenues	<u>333,500</u>	<u>363,500</u>	<u>386,739</u>	<u>23,239</u>
Expenditures:				
Current:				
Security of Persons and Property	424,700	454,800	423,933	30,867
Total Expenditures	<u>424,700</u>	<u>454,800</u>	<u>423,933</u>	<u>30,867</u>
Net Change in Fund Balances	(91,200)	(91,300)	(37,194)	54,106
Fund Balance, Beginning of Year	<u>208,821</u>	<u>208,821</u>	<u>208,821</u>	-
Fund Balance, End of Year	<u>\$ 117,621</u>	<u>117,521</u>	<u>171,627</u>	<u>54,106</u>

See accompanying notes to the basic financial statements.

**CITY OF UNION**  
**MONTGOMERY COUNTY, OHIO**  
Statement of Revenues, Expenditures and Changes  
In Fund Balance - Budget (Non-GAAP Basis) and Actual  
Refuse Fund  
For the Year Ended December 31, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>Revenues:</b>				
Charges for Services	350,000	350,000	386,654	36,654
Investment Income	400	400	3,084	2,684
Total Revenues	<u>350,400</u>	<u>350,400</u>	<u>389,738</u>	<u>39,338</u>
<b>Expenditures:</b>				
Current:				
Community Environment	407,400	388,308	377,069	11,239
Total Expenditures	<u>407,400</u>	<u>388,308</u>	<u>377,069</u>	<u>11,239</u>
Excess of Revenues Over (Under) Expenditures	(57,000)	(37,908)	12,669	50,577
Fund Balance, Beginning of Year	<u>68,956</u>	<u>68,956</u>	<u>68,956</u>	-
Fund Balance, End of Year	<u>\$ 11,956</u>	<u>31,048</u>	<u>81,625</u>	<u>50,577</u>

See accompanying notes to the basic financial statements.

**CITY OF UNION**  
**MONTGOMERY COUNTY, OHIO**  
Statement of Fund Net Assets  
Proprietary Funds  
December 31, 2006

	Water	Sewer	Stormwater	Total
<u>Assets:</u>				
Current Assets:				
Cash and Cash Equivalents	\$ 329,429	203,151	40,260	572,840
Accounts Receivable	38,207	38,211	8,529	84,947
Prepaid Items	3,123	1,481	3,056	7,660
Total Current Assets	<u>370,759</u>	<u>242,843</u>	<u>51,845</u>	<u>665,447</u>
Non-current Assets:				
Construction in Progress	-	44,912	-	44,912
Depreciable Capital Assets, net	3,435,701	3,846,883	2,019,264	9,301,848
Total Non-current Assets	<u>3,435,701</u>	<u>3,891,795</u>	<u>2,019,264</u>	<u>9,346,760</u>
Total Assets	<u>3,806,460</u>	<u>4,134,638</u>	<u>2,071,109</u>	<u>10,012,207</u>
<u>Liabilities:</u>				
Current Liabilities:				
Accounts Payable	4,920	9,437	435	14,792
Accrued Salaries Payable	2,582	3,318	357	6,257
Accrued Interest Payable	5,057	591	1,633	7,281
Intergovernmental Payable	6,358	7,243	845	14,446
Notes Payable	239,146	31,246	86,400	356,792
Total Current Liabilities	<u>258,063</u>	<u>51,835</u>	<u>89,670</u>	<u>399,568</u>
Long Term Liabilities:				
Compensated Absences Payable	23,867	26,377	2,923	53,167
Total Long Term Liabilities	<u>23,867</u>	<u>26,377</u>	<u>2,923</u>	<u>53,167</u>
Total Liabilities	<u>281,930</u>	<u>78,212</u>	<u>92,593</u>	<u>452,735</u>
<u>Net Assets:</u>				
Invested in capital assets, net of related debt	3,196,555	3,860,549	1,932,864	8,989,968
Unrestricted	327,975	195,877	45,652	569,504
Total Fund Equity	<u>3,524,530</u>	<u>4,056,426</u>	<u>1,978,516</u>	<u>9,559,472</u>
Total Liabilities and Fund Equity	<u>\$ 3,806,460</u>	<u>4,134,638</u>	<u>2,071,109</u>	<u>10,012,207</u>

See accompanying notes to the basic financial statements.

**CITY OF UNION**  
**MONTGOMERY COUNTY, OHIO**  
Statement of Revenues, Expenses and Changes in Fund Net Assets  
Proprietary Funds  
For the Year Ended December 31, 2006

	Water	Sewer	Stormwater	Total
<b>Operating Revenues:</b>				
Charges for Services	\$ 458,675	658,890	103,061	1,220,626
Tap-In Fees	37,000	37,200	-	74,200
Other Operating Revenue	14,927	4,000	-	18,927
<b>Total Operating Revenue</b>	<b>510,602</b>	<b>700,090</b>	<b>103,061</b>	<b>1,313,753</b>
<b>Operating Expenses:</b>				
Personal Services	237,696	312,695	30,932	581,323
Contractual Services	96,001	145,053	14,394	255,448
Supplies and Materials	41,255	81,651	105,728	228,634
Depreciation	131,423	160,894	69,258	361,575
<b>Total Operating Expenses</b>	<b>506,375</b>	<b>700,293</b>	<b>220,312</b>	<b>1,426,980</b>
<b>Operating Income (Loss)</b>	<b>4,227</b>	<b>(203)</b>	<b>(117,251)</b>	<b>(113,227)</b>
<b>Non-Operating Revenues (Expenses):</b>				
Interest	11,742	5,453	1,587	18,782
Grant Revenue	2,793	42,226	104,224	149,243
Interest and Fiscal Charges	(10,323)	(1,560)	(3,448)	(15,331)
Gain (loss) on Sale of Assets	714	714	-	1,428
Other Non-Operating Expenses	(3,413)	(3,987)	(285)	(7,685)
<b>Total Non-Operating Expenses</b>	<b>1,513</b>	<b>42,846</b>	<b>102,078</b>	<b>146,437</b>
<b>Net Income (Loss)</b>	<b>5,740</b>	<b>42,643</b>	<b>(15,173)</b>	<b>33,210</b>
<b>Net Assets at Beginning of Year</b>	<b>3,518,790</b>	<b>4,013,783</b>	<b>1,993,689</b>	<b>9,526,262</b>
<b>Net Assets at End of Year</b>	<b>\$ 3,524,530</b>	<b>4,056,426</b>	<b>1,978,516</b>	<b>9,559,472</b>

See accompanying notes to the basic financial statements.

**CITY OF UNION**  
**MONTGOMERY COUNTY, OHIO**  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended December 31, 2006

	Water	Sewer	Stormwater	Total
<b>Cash Flows from Operating Activities:</b>				
Cash Received from Customers	\$ 512,830	696,570	95,598	1,304,998
Cash Payments to Employees for Services and Benefits	(234,618)	(320,565)	(29,669)	(584,852)
Cash Payments to Suppliers for Goods and Services	(141,002)	(220,405)	(122,951)	(484,358)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>137,210</b>	<b>155,600</b>	<b>(57,022)</b>	<b>235,788</b>
<b>Cash Flows from Noncapital Financing Activities:</b>				
Grant Revenue	2,793	42,226	104,224	149,243
Other Non-operating expenses	(3,413)	(3,987)	(285)	(7,685)
<b>Net Cash Provided (Used) by Noncapital Financing Activities:</b>	<b>(620)</b>	<b>38,239</b>	<b>103,939</b>	<b>141,558</b>
<b>Cash Flows from Capital and Related Financing Activities:</b>				
Acquisition of Capital Assets	(76,635)	(249,214)	(41,772)	(367,621)
Proceeds from Sale of Assets	714	714	-	1,428
Proceeds from Sale of Notes	239,146	31,246	86,400	356,792
Principal Paid on Capital Leases	-	(6,067)	-	(6,067)
Principal Paid on Notes	(280,773)	(35,173)	(93,300)	(409,246)
Interest expense	(9,146)	(1,456)	(3,103)	(13,705)
<b>Net Cash Used in Capital and Related Financing Activities</b>	<b>(126,694)</b>	<b>(259,950)</b>	<b>(51,775)</b>	<b>(438,419)</b>
<b>Cash Flows from Investing Activities:</b>				
Interest	11,742	5,453	1,587	18,782
<b>Net Cash Provided by Investing Activities</b>	<b>11,742</b>	<b>5,453</b>	<b>1,587</b>	<b>18,782</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>21,638</b>	<b>(60,658)</b>	<b>(3,271)</b>	<b>(42,291)</b>
Cash and Cash Equivalents Beginning of Year	307,791	263,809	43,531	615,131
<b>Cash and Cash Equivalents End of Year</b>	<b>\$ 329,429</b>	<b>203,151</b>	<b>40,260</b>	<b>572,840</b>
<i>Reconciliation of Operating Loss to Net Cash Provided(Used) by Operating Activities:</i>				
Operating Income (Loss)	\$ 4,227	(203)	(117,251)	(113,227)
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:</b>				
Depreciation	131,423	160,894	69,258	361,575
Changes in Assets and Liabilities				
(Increase) Decrease in Accounts Receivable	2,228	(3,520)	(7,463)	(8,755)
(Increase) Decrease in Prepaid Items	(1,603)	1,133	(2,779)	(3,249)
Increase (Decrease) in Accounts Payable	(285)	5,763	356	5,834
Increase (Decrease) in Accrued Salaries Payable	83	(259)	57	(119)
Increase (Decrease) in Intergovernmental Payable	(1,309)	(5,324)	323	(6,310)
Increase (Decrease) in Compensated Absences Payable	2,446	(2,884)	477	39
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>\$ 137,210</b>	<b>155,600</b>	<b>(57,022)</b>	<b>235,788</b>

See accompanying notes to the basic financial statements.

CITY OF UNION, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

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NOTE 1- REPORTING ENTITY

The City of Union (the City) is a charter municipal corporation operating under the laws of the State of Ohio. The City was incorporated on July 15, 1907. A charter was first adopted on November 3, 1981.

The municipal government provided by the charter is known as a Mayor-Council-Manager form of government. Legislative power is vested in a seven-member Council, each elected to four year terms. The Council appoints the City Manager. The City Manager is the chief executive officer and the head of the administrative agencies of the City. He appoints all department heads and employees, except as otherwise provided in the charter.

Reporting Entity

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements of the City are not misleading.

The primary government consists of all funds and departments which provide various services including police protection, rescue squad, parks and recreation, planning, zoning, street maintenance and repair, community development, public health and welfare, water, sewer and refuse collection. Council and the City Manager are directly responsible for these activities.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing body and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the budget, the issuance of debt or the levying of taxes. The City has no component units.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Union have been prepared in conformity with generally accepted accounting principles (GAAP) applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The City has elected not to apply FASB Statements and Interpretations issued after November 30, 1989, to its business-type activities and to its proprietary funds. The most significant of the City's accounting policies are described below.

Basis of Presentation

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

CITY OF UNION, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by a recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues 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 or business-type activity 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 demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

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. There are three category of funds: governmental, proprietary and fiduciary.

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 must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

General Fund - This fund is the operating fund of the City and is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio and the charter of the City.

CITY OF UNION, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Police Fund – This fund accounts for all transactions relating to the provision of police and public safety services to the City.

Fire and EMS Fund – This fund accounts for all transactions relating to the provision of fire protection and emergency services to the City.

Street Light Fund – This fund accounts for all transactions relating to the provision of street lighting of roadways with in the City.

Refuse Fund – This fund accounts for all transactions relating to the provision of solid waste removal from residents and commercial users with in the City.

Street Levy – This fund accounts for all transactions relating to the provision of roadway improvements within the city.

The other governmental funds of the City account for grants and other resources whose use is restricted to a particular purpose.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City has no funds which are classified as fiduciary funds.

Proprietary Fund Types

The proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service.

Enterprise Funds – Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the City's major enterprise funds:

Storm Water Fund - This fund accounts for the collection of storm water runoff from residential, commercial and industrial users within the City.

Water Fund – The water fund accounts for the provisions of water treatment and distribution to the residential, commercial and industrial users located within the City.

Sewer Fund – The sewer fund accounts for the provisions of sanitary sewer service to the residential, commercial and industrial users located within the City.

CITY OF UNION, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus

Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operations of the City are included on the statement of net assets. The statement of activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets.

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 current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances report the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

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; proprietary and fiduciary funds also use 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 revenue and in the presentation of expenses versus expenditures.

Revenues – Exchange and Non-exchange Transaction

Revenue 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 a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and 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. The available period for the City is thirty-one days after year-end.

CITY OF UNION, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income tax, property tax, grants, entitlements and donations. On an accrual basis, revenue from income tax is recognized in the fiscal year in which the tax imposed takes place and revenue from property tax is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations 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, in which the City must provide local resources, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: income tax, state-levied locally shared taxes (including local government assistance, gasoline tax and vehicle license tax), fines and forfeitures, and investment earnings.

Deferred Revenue

Deferred revenues arise when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of December 31, 2006, but which were levied to finance 2007 operations, have been recorded as deferred revenues. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

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 decreases in net financial resources (expenditures) rather than expenses. Expenditures are recorded when the related fund liability is incurred, if measurable. Allocation of costs, such as depreciation and amortization, are not recognized in governmental funds.

Cash and Cash Equivalents

Cash balances of the City's funds, except cash held by a fiscal agent, are pooled and invested in short-term investments in order to provide improved cash management. Individual fund integrity is maintained through City records. Each fund's interest in the pooled bank account is presented on the balance sheet as "Equity in Pooled Cash and Cash Equivalents".

CITY OF UNION, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The City invested funds in the State Treasury Assets Reserves of Ohio (STAR Ohio) during fiscal year 2006. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2006.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City are considered to be cash equivalents. Interest income is distributed to the funds according to charter and statutory requirements.

Interest revenue is distributed to the funds according to statutory requirements. Interest revenue earned during 2006 amounted to \$77,674 and \$18,782 in the governmental funds and proprietary funds, respectively.

Supplies Inventory

Inventories reported on the government-wide and fund financial statements are presented at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Reported supplies inventory is equally offset by a fund balance reserve in the governmental funds, which indicates that it does not constitute available resources even though it is a component of net current assets.

Internal Balances

Internal balance amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for any net residual amounts due between governmental and business-type activities, which are presented as "internal balances".

Capital Assets

General capital assets are those 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 assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported in the respective enterprise fund financial statements and in the business-type activities column of the government-wide statement of net assets.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements 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 \$2,500. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are expensed. Interest incurred during the construction of capital assets is also capitalized within the business-type activities.

CITY OF UNION, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

All capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Buildings	45 years
Land Improvements	45 years
Equipment	5 - 15 years
Vehicles	10 years
Infrastructure	45 years

Compensated Absences

The City has implemented Governmental Accounting Standards Board Statement No. 16 "Accounting for Compensated Absences". Vacation leave accumulated by employees is accrued as a liability as the benefits are earned when both of these conditions are met:

1. The employees' rights to receive compensation are attributable to services already rendered.
2. It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

A liability for sick leave is accrued using the vesting method which states that the City will estimate its liability based on sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments as specified by the retirement system as well as other employees who are expected to become eligible in the future to receive such payments. The amount is based on accumulated sick leave and employees' wage rates at year end, taking into consideration any limits specified in the City's termination policy.

The entire compensated absence liability is reported on the government-wide financial statements.

On governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund 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, compensated absences that will be paid from the governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment from current-available resources. Long-term loans are recognized as a liability on the fund financial statements when due.

CITY OF UNION, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reservations and Designation of Fund Balance

Reservations of fund balances are established to identify the existence of assets that, because of their non-monetary nature or lack of liquidity, represent financial resources not available for current appropriation or expenditure or the portion of fund balance that is legally segregated for a specific future use. Fund balances have been reserved for supplies inventory and prepaid items.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets.

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charged for services for water, sewer, storm water and pool programs. Operating expenses are necessary costs incurred to provide goods or services that are the primary activity of the fund. Revenues and expenses that do not meet these definitions are reported as non-operating.

Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditure/expenses in the purchaser funds. Flows of cash or goods from one fund to another without requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayment from funds responsible for particular expenditures/expenses to funds that initially paid for them are not presented on the financial statements.

CITY OF UNION, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Budgetary Process

All funds, except for agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriation resolution is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of control has been established by the Council at the function level for all funds.

Appropriations may be allocated within each department and object level within each fund. Council must approve any revisions that alter total fund and function appropriations.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Finance Director. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate at the time final appropriations were adopted.

The appropriation resolution is subject to amendment by Council throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covers the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by Council during the year.

NOTE 3 - BUDGET TO GAAP RECONCILIATION

Budgetary Basis of Accounting

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis, as provided by law, is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations.

The Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual (Budget Basis), presented for the general fund and each major special revenue fund is presented on the budgetary basis to provide meaningful comparisons of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

CITY OF UNION, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 3 - BUDGET TO GAAP RECONCILIATION (continued)

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Outstanding year-end encumbrances are treated as expenditures/expenses (budget basis) rather than as a reservation of fund balance for governmental fund types or note disclosure for proprietary fund types (GAAP basis)
4. Proceeds from and principal payments on short-term note obligations are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the GAAP basis to the budget basis are as follows:

	Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses General Fund and Major Special Revenue Funds				
	General	Police	Fire/EMS	Street Light	Refuse
GAAP Basis	\$ 57,620	\$ 9,901	\$ (465,140)	\$ (37,642)	\$ 40,676
Revenue Accruals	54,467	-	(4,148)	-	(29,100)
Expenditure Accruals	(150,439)	2,631	77,822	448	1,093
Debt Proceeds	184,410	-	1,204,148	-	-
Transfers	(23,665)	-	23,665	-	-
Budget Basis	<u>\$ 122,393</u>	<u>\$ 12,532</u>	<u>\$ 836,347</u>	<u>\$ (37,194)</u>	<u>\$ 12,669</u>

NOTE 4 – CHANGE IN ACCOUNTING PRINCIPLE

For the fiscal year 2006, the City implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 46, “*Net Assets Restricted by Enabling Legislation*”, and GASB Statement No. 47, “*Accounting for Termination Benefits*”. The implementation of these new standards did not require a restatement of balances.

CITY OF UNION, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

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NOTE 5 - DEPOSITS AND INVESTMENTS

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Monies held by the City are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the City treasury. Active monies must be maintained either as cash in the City treasury, in commercial accounts payable or withdrawable on demand, including negotiable orders of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

**Deposits:** Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. By Ohio law, financial institutions must collateralize all public deposits. The face value of the pooled collateral must equal at least 105 percent of public funds on deposit with that specific institution. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions. At year-end, the carrying amount of the City's deposits was \$98,726 and the bank balance was \$214,077. \$100,000 of the bank balance was covered by federal depository insurance and \$114,077 was exposed to custodial credit risk as it was collateralized with securities held by the pledging financial institution's agent but not in the City's name.

**Investments:** Investments are required to be reported at fair value. The Ohio Revised Code authorizes the City to invest in United States and State of Ohio Bonds, notes and other obligations; bank certificate of deposits; banker's acceptances; commercial paper notes rated prime and issued by United States Corporations; and STAROhio. Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. At year end the City had investments in STAROhio of \$2,439,925. STAROhio is rated AAAM by Standard and Poor's and comprises 100% of the City's investments.

The City's investment policy permits investment in any security or instrument authorized in Ohio Revised Code Section 135. Unless matched to a specific cash flow requirement, investments shall be limited to securities maturing in five years or less from the date of purchase and all investments shall be held in the name of the City. While the City's investment policy indicates the investment portfolio should be diversified, it does not specify any limits on the amounts that may be invested in any one issuer.

CITY OF UNION, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

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NOTE 6 - PROPERTY TAXES

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Taxes collected from real property taxes (other than public utility) in one calendar year are levied in the preceding calendar year on the assessed value as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be revaluated every six years. The last revaluation was completed in 2002. Real property taxes are payable annually or semi-annually. The first payment is due January 20, with the remainder payable by June 20.

Taxes collected on tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values listed on December 31 of the prior year, and at tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of its true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. The first \$10,000 of taxable value is exempt from taxation for each business by state law.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property currently is assessed at 88 percent of its true value; public utility real property is assessed at 35 percent of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of Union. The County Auditor periodically remits to the City its portion of the taxes collected. The full tax rate for all City operations for the year ended December 31, 2006, was \$16.03 per \$1,000 of assessed value. Real property owner's tax bills are further reduced by homestead and roll back deductions, when applicable.

The assessed value of real and tangible personal property upon which 2006 property tax receipts were based are as follows:

Real property:	
Residential/agricultural	\$ 93,858,630
Commercial/industrial	3,762,950
Tangible personal property:	
Public utilities	1,326,970
General	<u>2,184,504</u>
Total valuation	<u>\$ 101,133,054</u>

CITY OF UNION, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

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NOTE 6 - PROPERTY TAXES (continued)

Property taxes receivable represent real and tangible personal property taxes, public utility taxes and outstanding delinquencies that are measurable as of December 31, 2006. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31, nor are they intended to finance 2006 operations. The receivable is therefore offset by a credit to deferred revenue.

NOTE 7 - RECEIVABLES

Receivables at December 31, 2006, consisted of taxes, intergovernmental receivables arising from grants, entitlements and shared revenues, special assessments, interest on investments and utility accounts. All receivables are considered fully collectible. Utility Accounts Receivable at December 31, 2006 was \$84,947.

A summary of the governmental activities intergovernmental receivables follows:

<u>Governmental Activities:</u>	
Homestead/Rollback Property Relief	\$ 96,638
Local Government Assistance	78,256
Gasoline Tax	106,106
Motor Vehicle License Fees	20,050
Permissive Motor Vehicle License Tax	14,018
Local Grant	30,399
Other	<u>355</u>
Total	<u>\$ 345,822</u>

CITY OF UNION, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2006 was as follows:

	<u>Balance 12/31/2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2006</u>
Governmental Activities:				
Non-depreciable capital assets				
Land	\$ 598,006	-	-	\$ 598,006
Construction in Progress	<u>67,015</u>	<u>387,529</u>	<u>(67,015)</u>	<u>387,529</u>
Total Non-depreciable capital assets	665,021	387,529	(67,015)	985,535
Depreciable capital assets				
Buildings	919,919	-	-	919,919
Equipment	1,497,716	229,763	-	1,727,479
Infrastructure	603,644	125,035	-	728,679
Vehicles	<u>393,246</u>	<u>175,962</u>	<u>-</u>	<u>569,208</u>
Total depreciable capital assets	3,414,525	530,760	-	3,945,285
Less: accumulated depreciation				
Buildings	(197,169)	(20,462)	-	(217,631)
Equipment	(1,059,690)	(136,245)	-	(1,195,935)
Infrastructure	(11,615)	(13,541)	-	(25,156)
Vehicles	<u>(127,018)</u>	<u>(40,675)</u>	<u>-</u>	<u>(167,693)</u>
Total accumulated depreciation	(1,395,492)	(210,923) *	-	(1,606,415)
Depreciable capital assets, net	<u>2,019,033</u>	<u>319,837</u>	<u>-</u>	<u>2,338,870</u>
Governmental Activities Capital Assets, Net	<u>\$ 2,684,054</u>	<u>707,366</u>	<u>(67,015)</u>	<u>\$ 3,324,405</u>

\* - depreciation expense was allocated to governmental functions as follows:

General Government	\$ 120,226
Public Safety	86,478
Transportation	<u>4,219</u>
Total Depreciation Expense	<u>\$ 210,923</u>

CITY OF UNION, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2006

NOTE 8 - CAPITAL ASSETS (continued)

	Balance 12/31/2005	Additions	Deletions	Balance 12/31/2006
Business Type Activities:				
Non-depreciable capital assets				
Construction in Progress	\$ 18,123	44,912	(18,123)	\$ 44,912
Depreciable capital assets				
Buildings	3,170,236	-	-	3,170,236
Equipment	784,110	52,225	-	836,335
Infrastructure	10,694,762	274,266	-	10,969,028
Vehicles	<u>40,106</u>	<u>14,341</u>	-	<u>54,447</u>
Total depreciable capital assets	14,689,214	340,832	-	15,030,046
Less: accumulated depreciation				
Buildings	(1,930,422)	(61,449)	-	(1,991,871)
Equipment	(378,710)	(59,493)	-	(438,203)
Infrastructure	(3,047,092)	(234,159)	-	(3,281,251)
Vehicles	<u>(10,399)</u>	<u>(6,474)</u>	-	<u>(16,873)</u>
Total accumulated depreciation	(5,366,623)	(361,575)	-	(5,728,198)
Depreciable capital assets, net	<u>9,322,591</u>	<u>(20,743)</u>	-	<u>9,301,848</u>
Business Type Activities Capital Assets, Net	<u>\$ 9,340,714</u>	<u>24,169</u>	<u>(18,123)</u>	<u>\$ 9,346,760</u>

NOTE 9 - DEFINED BENEFIT PENSION PLANS

Both the Police and Firemen's Disability Pension Fund and the Public Employees Retirement System are reported using GASB Statement No. 27 "Accounting for Pensions by State and Local Governmental Employers". Substantially all City employees are covered by one of two pension plans, namely, the Ohio Police and Fire Pension Fund (OP&F) or the Ohio Public Employees Retirement System (OPERS). Both funds provide retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries.

Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans, the Traditional Pension Plan (TP), the Member-Directed Plan (MD) and the Combined Plan (CO). The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan in which the member invests both member and employer contributions. Under the Member-Directed Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon. The Combined Plan (CO) is a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

CITY OF UNION, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

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NOTE 9 - DEFINED BENEFIT PENSION PLANS (continued)

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the Traditional Plan and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits.

Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. The Ohio Public Employees Retirement System issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-6701 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2006, member and employer contribution rates were consistent across all three plans (TP, MD, and CO). The 2006 member contribution rates were 9.0% of their annual covered salary. The 2006 employer contribution rate for local government employer units was 13.70% of covered payroll. The City's contributions to the plan for the years ending December 31, 2006, 2005 and 2004 were \$148,584, \$138,669, and \$142,769, respectively. The amount paid by the City includes both the employer's contribution as well as the employee's contribution (pick-up) for certain employees. The unpaid contribution for 2006 was \$35,539 and is recorded as a liability within the respective funds and the statement of net assets.

Ohio Police and Fire Pension Fund

The City of Union contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. The Ohio Police and Fire Pension Fund issues a publicly available financial report that includes financial statements and required supplementary information for the plan. Interested parties may obtain a copy by making a written request to 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10.0% of their annual covered salary, while employers are required to contribute 19.5% and 24.0%, respectively for police officers and firefighters. The City contributions to the plan for the years ended December 31, 2006, 2005 and 2004 were \$71,377 \$60,518 and \$47,614, respectively. The City's contributions include a full pick-up on the police chief. The unpaid contribution for 2006 was \$18,762 and is recorded as a liability in the respective funds and statement of net assets.

CITY OF UNION, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

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NOTE 10 - POSTEMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the Traditional Pension Plan (TP), the Member-Directed Plan (MD) and the Combined Plan (CO). OPERS provides retirement, disability, survivor and post-retirement health care benefits to qualifying members of both the Traditional and the Combined Plans, however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post employment health care coverage. In order to qualify for post-retirement health care coverage, age and service retirees must have ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care based on authority granted by State statute. The 2006 employer contribution rate was 13.70%; 4.50% was the portion that was used to fund health care for the year. The portion of the City's contributions for 2006 used to fund post-employment benefits was \$48,810.

The Ohio Revised Code provides the statutory authority to require public employers to fund post retirement health care through their contributions to OPERS.

Actuarial Review: The assumptions and calculations below were based on the OPERS' latest actuarial review performed as of December 31, 2005.

Funding Method: An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability

Assets Valuation Method: All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually.

Investment Return: The investment assumption rate for 2005 was 6.50%

Active Employee Total Payroll: An annual increase of 4.00% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00% base increase, were assumed to range from 0.50% to 6.30%.

Health Care: Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from .50% to 6% for the next 9 years. In subsequent years (10 and beyond) health care costs were assumed to increase at 4% (the projected wage inflation rate).

OPEBs are advance-funded on an actuarially determined basis. At December 31, 2006, the number of active contributing participants in the Traditional and Combined Plans totaled 369,214 compared with the 358,804 participants used in the December 31, 2005 actuarial valuation. \$11.1 billion represents the actuarial value of the Retirement System's net assets available for OPEBs at December 31, 2005. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$31.3 billion and \$20.2 billion, respectively at December 31, 2005.

CITY OF UNION, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

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NOTE 10 - POSTEMPLOYMENT BENEFITS (continued)

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, is effective on January 1, 2007. OPERS took additional actions to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006 and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

Police and Fire Pension Fund

The Ohio Police and Fire Pension Fund (OP&F) provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability or survivor benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending full-time or on a 2/3 basis. The Ohio Revised Code provides the authority allowing the System's board of trustees to provide health care coverage and states that health care cost paid from the System shall be included in the employer's contribution rate. The total police employer contribution is 19.5% of covered payroll and the firefighter employer contribution rate is 24.0% of covered payroll.

Health care funding and accounting is on a pay as you go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.75% of covered payroll in 2005 and 2006. In addition since July 1, 1992, most retirees and survivors were required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The number of participants eligible to receive health care benefits as of December 31, 2005, the date of the last actuarial valuation available, was 13,922 for police and 10,537 for firefighters. The City's portion of current year contributions to fund post retirement benefits was \$28,336. The fund's total health care expenses for the year ending December 31, 2005, the date of the last actuarial valuation available, was \$108,039,449, which was net of member contributions of \$55,271,881.

CITY OF UNION, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2006

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NOTE 11 - OTHER EMPLOYEE BENEFITS

Compensated Absences

Accumulated Unpaid Vacation

City employees earn vacation leave at varying rates based upon length of service. In the case of death or retirement, an employee (or his estate) is paid for his unused vacation leave. The total obligation for vacation accrual for the City as a whole amounted to \$53,355 at December 31, 2006.

Accumulated Unpaid Sick Leave

All hourly employees earn 4.6 hours of sick leave per 80 hours worked. All salaried employees earn sick leave at the rate of 1.25 days per month. Upon qualifying to retire under one of the two pension systems an employee who has unused accumulated sick leave of up to 60 days is eligible to be paid for a portion of these hours. An employee with between 10 and 20 years of service will be paid at a rate of one day's pay for every two days accrued. An employee with over twenty years of service shall receive one day's pay for each day of accumulated sick leave. The total obligation for sick leave accrual for the City as a whole as of December 31, 2006 was \$52,790.

NOTE 12 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During 2006 the City renewed their contract with the Ohio Government Risk Management Plan. This Plan does not operate as a risk pool, but provides conventional insurance protection and reinsures these coverages 100 percent. The type of coverage and deductible for each is as follows:

<u>Type of Coverage</u>	<u>Per Occurrence</u>	<u>Deductible</u>
General Liability	\$ 3,000,000	no deductible
Police Liability	3,000,000	\$ 2,500
Errors and Omissions	3,000,000	2,500
Automobile	3,000,000	1,000
Property Insurance	3,742,627	1,000
Inland Marine	819,869	250
Fire Vehicle	495,000	1,000
Crime	10,000	100
EDP	25,000	250

Settled claims have not exceeded commercial coverage in any of the past five years.

The City joined a workers' compensation group rating plan, which allows local governments to group the experience of employers for workers' compensation rating purposes. The City pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries.

CITY OF UNION, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2006

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NOTE 12 - RISK MANAGEMENT (continued)

The City has elected to provide employee medical insurance benefits through John Alden Life Insurance Company. The City covers the employee's premiums and deductibles by budgeting \$76,600 each year for health insurance expenditures. This money is set aside to cover each employee's monthly premium and deductible of \$5,000 after the employee pays the first \$100. If the money set aside is not depleted, the City places the excess into a savings account. In 2006, the City made no contribution to the savings account and the account has a balance of \$113,259. This amount is reflected in the cash balance of each fund based on the original contribution.

Dental benefits are also provided by the City.

NOTE 13 - CAPITALIZED LEASES

In prior years, the City has entered lease agreements for the acquisition of a Kut-Kwick mower, an ambulance and a bucket truck. The leases meet the criteria of capital leases as defined by statement of financial accounting standards No. 13 "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee.

Capital lease payments have been reclassified and are reflected as debt service in the respective funds. Lease payments for the mower are reflected as contractual service expenses in the sewer fund on a budgetary basis. Lease payments for the ambulance and bucket truck are reflected as public safety and transportation expenses in the governmental funds on a budgetary basis. The mower has been capitalized as equipment in the sewer fund for \$27,117. The ambulance and bucket truck have been capitalized on the statement of net assets for \$249,718. Principal payments in 2006 for capital leases were \$51,112.

The following is a schedule of the future minimum lease payments required under the capital leases and present value of the minimum lease payments as of December 31, 2006.

Year ending December 31,	Capital Lease Obligation
2007	\$ 49,405
2008	49,405
2009	49,405
2010	32,256
Total minimum lease payments	180,471
Less: Amount representing interest	(14,773)
Minimum lease payments	<u>\$ 165,698</u>

CITY OF UNION, OHIO  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006

**NOTE 14 - SHORT-TERM OBLIGATIONS**

A summary of the short-term note transactions for the year ended December 31, 2006 follows:

	Balance 12/31/2005	Additions	Deletions	Balance 12/31/2006
<b>Bond Anticipation Notes:</b>				
<b>Governmental activities:</b>				
St. Rt. 48 reconstruction, 4.50%	\$ 106,700	95,300	(106,700)	\$ 95,300
Martindale Road, 4.50%	23,000	-	(23,000)	-
City Hall renovation, 4.50%	136,554	121,308	(136,554)	121,308
Fire Station Expansion, 4.50%	-	1,200,000	-	1,200,000
<b>Total governmental activities</b>	<u>266,254</u>	<u>1,416,608</u>	<u>(266,254)</u>	<u>1,416,608</u>
<b>Business-type activities:</b>				
Well #4, 4.50%	155,800	141,000	(155,800)	141,000
St. Rt. 48 water line, 4.50%	89,800	66,900	(89,800)	66,900
Merrymaid storm culvert, 4.50%	93,300	86,400	(93,300)	86,400
City Hall renovation, 4.50%	70,346	62,492	(70,346)	62,492
<b>Total business-type activities</b>	<u>409,246</u>	<u>356,792</u>	<u>(409,246)</u>	<u>356,792</u>
<b>Total bond anticipation notes</b>	<u>\$ 675,500</u>	<u>1,773,400</u>	<u>(675,500)</u>	<u>\$ 1,773,400</u>

The City classifies these notes as short-term because it is the City's plan to renew these notes each year and to pay off a portion of the principal each year. The short-term notes were issued for construction costs associated with the repair and replacement of water and sewer lines, renovation of the municipal building and the expansion of the fire station.

**NOTE 15 - LONG-TERM OBLIGATIONS**

The changes in the City's long-term obligations for the year consist of the following:

	Balance 12/31/2005	Additions	Deletions	Balance 12/31/2006	Amount Due In One Year
<b><u>Governmental Activities:</u></b>					
Compensated absences	\$ 44,916	31,362	(23,298)	\$ 52,980	\$ 24,500
Capital lease obligation	210,743	-	(45,045)	165,698	\$ 43,042
<b>Total governmental activities</b>	<u>\$ 255,659</u>	<u>31,362</u>	<u>(68,343)</u>	<u>\$ 218,678</u>	<u>\$ 67,542</u>
<b><u>Business-type Activities:</u></b>					
Compensated absences	\$ 53,128	12,187	(12,148)	\$ 53,167	\$ 15,500
Capital lease obligation	6,067	-	(6,067)	-	-
<b>Total business-type activities</b>	<u>\$ 59,195</u>	<u>12,187</u>	<u>(18,215)</u>	<u>\$ 53,167</u>	<u>\$ 15,500</u>

As of December 31, 2006, the City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$10,045,571. Compensated absences are paid from the fund in which the employees' payroll is charged.

CITY OF UNION, OHIO  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2006

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NOTE 16 - FEDERAL AND STATE GRANTS

For the period January 1, 2006 to December 31, 2006 the City received federal and state grants for specific purposes that are subject to review and audit by grantor agencies or their designee. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowance, if any, would be immaterial.

NOTE 17 - DEFICIT FUND EQUITY

The Fire/EMS fund has deficit fund equity of \$322,640 due to a note being classified as short-term within the fund. The note is being rolled over each year with a portion of principal paid.

NOTE 18 – INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2006, consisted of the following:

<u>Transfer From:</u>	Transfer To:			<u>Total</u>
	<u>General</u>	<u>Fire/EMS</u>	<u>Non-Major Governmental</u>	
General	\$ -	\$ 34,000	\$ 49,000	\$ 83,000
Police	-	-	42,000	42,000
Fire/EMS	23,665	-	-	23,665
Total	\$ 23,665	\$ 34,000	\$ 91,000	\$ 148,665

Transfers were made during the year to provide additional operating funds for various funds from unrestricted general fund revenues, to provide funding for the repayment of police pension debt which is recorded in a separate fund from the police operating funds, and to reclassify resources from various funds which share the use of various capital assets to the fund in which the debt for those capital assets is recorded.

NOTE 19 – SUBSEQUENT EVENTS

On January 22, 2007, the City Council approved an ordinance which enacts a one percent income tax effective January 1, 2007 as permitted by the City’s Charter. The income tax provision will permit a one percent credit for all taxes paid to other municipalities. The City anticipates receiving approximately \$100,000 per year from this new tax source. After a legal challenge was ruled in the City’s favor, the City began collecting income tax receipts in May of 2007.



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**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**

City Council  
City of Union, Ohio  
118 North Main Street  
Union, Ohio 45322

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Union, Ohio (the City), as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 1, 2008. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects an entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2006-001 and 2006-002 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies referred to above is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our 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*.

We noted certain matters that we reported to management of the City in a separate letter dated April 1, 2008.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the members of City Council, and the management of the City and is not intended to be and should not be used by anyone other than these specified parties.



Springfield, Ohio  
April 1, 2008

**CITY OF UNION, OHIO  
SCHEDULE OF AUDIT FINDINGS AND RESPONSES  
FOR THE YEAR ENDED DECEMBER 31, 2006**

Audit Finding 2006-001: Tracking of Encumbrances

The City does not currently have the capability to use its financial system to monitor encumbrance amounts. Instead, the Financial Director tracks outstanding encumbrance amounts outside the financial system using spreadsheets. These amounts are compared with appropriation amounts per the system prior to the issuance of any new purchase orders. At year-end, all encumbrance amounts are cancelled and reissued in the following year. While the amount of outstanding encumbrances at year end is not material for the current year, valid encumbrances in future years could be significant and should be reported in the City's financial statements. Having access to the encumbrance module available for the current financial system would enable these encumbrance amounts to be monitored appropriately against appropriation amounts and permit the proper reporting of any valid outstanding encumbrance amount at year-end.

To properly monitor its budgetary activity throughout the year and to have the information available to properly report outstanding encumbrance amounts at year-end in its financial statements, the City should determine if incorporating the encumbrance module into the financial system is feasible. Such a module would permit the system to track budgetary compliance with appropriation amounts as well as provide the necessary information to report year-end encumbrance amounts. Meanwhile, the City should use the spreadsheets currently being used to track encumbrance amounts to produce the information necessary to report year-end encumbrance amounts on its financial statements.

*Management Response:*

*The City is in the process of contacting its accounting software supplier in order to investigate the costs of implementing the purchase order software application for the City.*

Audit Finding 2006-002: Audit Adjustments

During the current audit there were adjustments made to the financial statements as a result of auditing procedures performed. Statement on Auditing Standard (SAS) No. 112, *Communicating Internal Control Related Matters Identified in an Audit*, specifically identifies audit adjustments made to financial statements as an indicator of a control deficiency that should be regarded as at least a significant deficiency.

*Management Response:*

*Management is aware of the adjustments made.*



**Mary Taylor, CPA**  
Auditor of State

**CITY OF UNION**

**MONTGOMERY COUNTY**

**CLERK'S CERTIFICATION**

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MAY 13, 2008**