

CITY OF UNION, OHIO

Basic Financial Statements

December 31, 2005

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, 2005 through December 31, 2005. 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

April 30, 2008

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CITY OF UNION, OHIO

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Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS
www.cshco.com

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, 2005, 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, 2005, 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 November 19, 2007 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, Hachett & Co.

Springfield, Ohio
November 19, 2007

CITY OF UNION
MONTGOMERY COUNTY, OHIO
Management's Discussion and Analysis
For the Year Ended December 31, 2005
(Unaudited)

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2005. 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 2005 are as follows:

- Governmental activities reported a positive net change in net assets of \$811,144, a 29.3% increase.
- Business-type activities reported a positive net change in net assets of \$533,301, a 5.9% increase.
- The General Fund reported a fund balance of \$127,630 which represents an increase of \$74,475, or 140%.
- On the budget basis, actual revenues exceeded actual expenditures in the General Fund by \$60,576, which increases the unencumbered cash balance to \$178,372.

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 2005?" 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 that these funds are a part of the "government-wide" statements, but not a part of the "governmental funds".

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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, 2005 as compared to December 31, 2004.

TABLE 1
Statement of Net Assets, December 31

	2005			2004		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Assets:						
Current Assets	\$ 3,328,319	695,734	4,024,053	2,818,350	1,054,464	3,872,814
Capital Assets, Net	2,684,054	9,340,714	12,024,768	2,149,793	8,579,106	10,728,899
Total Assets	<u>6,012,373</u>	<u>10,036,448</u>	<u>16,048,821</u>	<u>4,968,143</u>	<u>9,633,570</u>	<u>14,601,713</u>
Liabilities:						
Current Liabilities	2,179,297	450,991	2,630,288	2,106,325	494,519	2,600,844
Long-Term Liabilities	255,659	59,195	314,854	95,545	146,090	241,635
Total Liabilities	<u>2,434,956</u>	<u>510,186</u>	<u>2,945,142</u>	<u>2,201,870</u>	<u>640,609</u>	<u>2,842,479</u>
Net Assets:						
Invested in Capital Assets, Net of Related Debt	2,207,057	8,925,401	11,132,458	1,794,379	8,020,356	9,814,735
Restricted	765,733	-	765,733	556,874	-	556,874
Unrestricted	604,627	600,861	1,205,488	415,020	972,605	1,387,625
Total Net Assets	<u>\$ 3,577,417</u>	<u>9,526,262</u>	<u>13,103,679</u>	<u>2,766,273</u>	<u>8,992,961</u>	<u>11,759,234</u>

The amount by which the City's assets exceeded its liabilities is called net assets. As of December 31, 2005 the City's net assets were \$13.1 million. Of this amount, \$11.1 million was invested in capital assets and \$.8 million was subject to external restrictions for its use. The remaining amount, \$1.2 million, was unrestricted and available for future use as directed by City Council and the City administration.

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(Unaudited)

The following table shows the changes in net assets for the year ended December 31, 2004 as compared to fiscal year ended December 31, 2005.

TABLE 2
Change in Net Assets

	2005			2004		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
REVENUES:						
Program Revenues:						
Charges for Services	\$ 1,007,176	1,220,552	2,227,728	957,079	1,200,133	2,157,212
Operating Grants and Contributions	593,455	-	593,455	717,896	-	717,896
Capital Grants and Contributions	17,240	554,384	571,624	114,809	393,856	508,665
General Revenues:						
Property Taxes	1,470,144	-	1,470,144	916,619	-	916,619
Intergovernmental	172,587	-	172,587	270,557	-	270,557
Investment Income	21,025	13,947	34,972	3,544	5,999	9,543
Other Revenue	240,043	31,623	271,666	305,804	38,320	344,124
Transfers	(24,371)	24,371	-	(7,220)	7,220	-
Total Revenue	<u>3,497,299</u>	<u>1,844,877</u>	<u>5,342,176</u>	<u>3,279,088</u>	<u>1,645,528</u>	<u>4,924,616</u>
EXPENSES:						
Security of Persons and Property	1,643,168	-	1,643,168	1,158,026	-	1,158,026
Public Health Services	12,364	-	12,364	17,545	-	17,545
Leisure Time Activities	77,175	-	77,175	70,495	-	70,495
Community Environment	343,449	-	343,449	341,024	-	341,024
Transportation	288,011	-	288,011	508,842	-	508,842
General Government	304,555	-	304,555	511,022	-	511,022
Water	-	509,225	509,225	-	509,755	509,755
Sewer	-	684,800	684,800	-	578,346	578,346
Stormwater	-	117,074	117,074	-	128,266	128,266
Other Business-Type Expenses	-	477	477	-	7,484	7,484
Interest Expense	17,433	-	17,433	13,628	-	13,628
Total Expenses	<u>2,686,155</u>	<u>1,311,576</u>	<u>3,997,731</u>	<u>2,620,582</u>	<u>1,223,851</u>	<u>3,844,433</u>
Change in Net Assets	811,144	533,301	1,344,445	658,506	421,677	1,080,183
Net Assets, Beginning of Year	2,766,273	8,992,961	11,759,234	2,107,767	8,571,284	10,679,051
Net Assets, End of Year	<u>\$ 3,577,417</u>	<u>9,526,262</u>	<u>13,103,679</u>	<u>2,766,273</u>	<u>8,992,961</u>	<u>11,759,234</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 approximately 75% of property tax revenues to cover net expenses of \$923,326. General Government, the next highest function, includes all expenses associated with administration, city council and other general operating expenses at a cost of \$304,555.

Business-Type Activities

Overall, the City's business-type activities generated over \$1.2 million in charges for services and other operating revenues, which did not cover the cost of doing business of approximately \$1.3 million, resulting in an operating loss of \$43,018. Capital grants and contributions of \$554,384 more than offset the operating loss. Charges for services (fees) for usage are increased as necessary to cover the costs of these essential services.

CITY OF UNION
MONTGOMERY COUNTY, OHIO
Management's Discussion and Analysis
For the Year Ended December 31, 2005
(Unaudited)

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
For the Year Ended December 31, 2005

	2005		2004	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Governmental Activities:				
Security of Person and Property	\$ 1,643,168	(923,326)	1,158,026	(365,227)
Public Health Services	12,364	(1,447)	17,545	(5,510)
Leisure Time Activities	77,175	(33,311)	70,495	(22,139)
Community Environment	343,449	(131,255)	341,024	(107,100)
Transportation	288,011	28,606	508,842	(152,811)
General Government	304,555	9,882	511,022	(164,382)
Interest Expense	17,433	(17,433)	13,628	(13,628)
Total	\$ 2,686,155	(1,068,284)	2,620,582	(830,797)
Business-Type Activities:				
Water	\$ 509,225	84,275	509,755	87,956
Sewer	684,800	56,659	578,346	189,842
Stormwater	117,074	322,903	128,266	99,824
Other Business-Type Expenses	477	(477)	7,484	(7,484)
Total	\$ 1,311,576	463,360	1,223,851	370,138

CITY OF UNION
MONTGOMERY COUNTY, OHIO
Management's Discussion and Analysis
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(Unaudited)

THE CITY'S FUNDS

The balance sheet for the City's major governmental funds is reflected on pages 13 – 14. These funds are reported using a modified accrual basis of accounting. Total governmental fund balances are \$713,445, of which \$670,045 is unreserved. Revenues and expenditures are reflected on pages 15 – 16. The net change in fund balances is \$382,161.

The General Fund balance increased by \$74,475, caused by a moderate decrease in expenditures.

Fund balance in the Police Fund increased by \$35,159 to \$27,132. 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 increase of \$92,519 to \$142,500 due to the City passing a tax levy to increase services.

Fund balance in the Street Light fund increased by \$157,042 to \$208,086. This is due to City entering into a lease for bucket truck the proceeds of which will not be expended until fiscal year 2006.

The Refuse fund experienced an increase of \$21,875 in fund balance due to an increase in revenue with costs consistent with the prior year.

The Street Levy fund reported a slight fund balance increase of \$8,134, due to a relative increase in revenues and expenditures from the prior year. However the fund has a negative fund balance of \$73,718 due to reporting a liability for the reconstruction of St. Rt. 48.

Governmental fund expenditures showed an increase over 2004 of \$6,657 or 2.9%. This slight increase was due to increases in transfers from the general fund.

The proprietary funds showed a net operating loss of \$43,018. This decrease is primarily due to an increase in operating costs with no corresponding increase in operating revenues.

General Fund Budgeting Highlights

For the General Fund, actual budget basis revenue was \$576,601 as compared to the final budget estimate of \$538,905 and the original budget estimate of \$412,930. The variance between actual and the final 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 \$665,694, \$89,093 above revenues. However, actual expenditures were \$127,011 below final budget estimates and included capital expenditures for which notes were issued. In total the net change in the general fund on a budgetary basis was an increase of \$60,576..

CITY OF UNION
MONTGOMERY COUNTY, OHIO
Management's Discussion and Analysis
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(Unaudited)

CAPITAL ASSETS AND INFRASTRUCTURE

At December 31, 2005, the City has invested in land, construction in progress, buildings and equipment with amounts totaling \$2.7 million and \$9.3 million in governmental activities and business-type activities, respectively. Table 4 shows December 31, 2005 balances compared to December 31, 2004 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

	2005			2004		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
Land	\$ 598,006	-	598,006	581,806	-	581,806
Construction in Progress	67,015	18,123	85,138	-	33,891	33,891
Infrastructure	603,644	10,694,762	11,298,406	282,289	9,770,813	10,053,102
Buildings	919,919	3,170,236	4,090,155	919,919	3,160,676	4,080,595
Equipment	1,497,716	784,110	2,281,826	1,423,127	624,757	2,047,884
Vehicles	393,246	40,106	433,352	157,425	30,561	187,986
Less: Accumulated						
Depreciation	(1,395,492)	(5,366,623)	(6,762,115)	(1,214,773)	(5,041,592)	(6,256,365)
Totals	\$ 2,684,054	9,340,714	12,024,768	2,149,793	8,579,106	10,728,899

Overall, capital assets increased approximately \$1.3 million from December 31, 2004. The increase in capital assets related primarily to the addition of infrastructure and the construction of water and sewer lines.

DEBT ADMINISTRATION

At December 31, 2005, the City's long-term debt consisted of three capital leases. During fiscal year 2005 the City entered into two new 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. The mower lease is paid from the enterprise funds and the other two leases 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, 2005, the City's legal debt margin was \$8,876,266.

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

CITY OF UNION
MONTGOMERY COUNTY, OHIO
Management's Discussion and Analysis
For the Year Ended December 31, 2005
(Unaudited)

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, 2005

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Equity in Pooled Cash and Cash Equivalents	\$ 965,101	615,131	1,580,232
Receivables (net of allowances for uncollectibles):			
Taxes	1,473,337	-	1,473,337
Accounts	31,737	76,192	107,929
Special Assessments	473,917	-	473,917
Due from Other Governments	340,827	-	340,827
Prepaid Items	25,201	4,411	29,612
Materials and Supplies Inventory	18,199	-	18,199
Capital Assets:			
Capital assets not subject to depreciation:			
Land	598,006	-	598,006
Construction in Progress	67,015	18,123	85,138
Capital assets, net of accumulated depreciation	<u>2,019,033</u>	<u>9,322,591</u>	<u>11,341,624</u>
 Total Assets	 <u>6,012,373</u>	 <u>10,036,448</u>	 <u>16,048,821</u>
LIABILITIES:			
Accounts Payable	34,300	8,958	43,258
Accrued Wages and Benefits	14,003	6,376	20,379
Due to Other Governments	38,769	20,756	59,525
Accrued Interest Payable	5,118	5,655	10,773
Deferred Revenue	1,820,853	-	1,820,853
Notes Payable	266,254	409,246	675,500
Noncurrent Liabilities:			
Due Within One Year	74,194	36,567	110,761
Due In More Than One Year	<u>181,465</u>	<u>22,628</u>	<u>204,093</u>
 Total Liabilities	 <u>2,434,956</u>	 <u>510,186</u>	 <u>2,945,142</u>
NET ASSETS:			
Invested in capital assets, net of related debt	2,207,057	8,925,401	11,132,458
Restricted for:			
Other Purposes	765,733	-	765,733
Unrestricted	<u>604,627</u>	<u>600,861</u>	<u>1,205,488</u>
 Total Net Assets	 <u>\$ 3,577,417</u>	 <u>9,526,262</u>	 <u>13,103,679</u>

See accompanying notes to the basic financial statements.

CITY OF UNION
MONTGOMERY COUNTY, OHIO
Statement of Activities
For the Year Ended December 31, 2005

Functions/Programs:	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
Governmental Activities:							
Security of Persons and Property	\$ 1,643,168	448,126	271,716	-	(923,326)		(923,326)
Public Health Services	12,364	6,796	4,121	-	(1,447)		(1,447)
Leisure Time Activities	77,175	27,307	16,557	-	(33,311)		(33,311)
Community Environment	343,449	132,098	80,096	-	(131,255)		(131,255)
Transportation	288,011	197,104	102,273	17,240	28,606		28,606
General Government	304,555	195,745	118,692	-	9,882		9,882
Interest Expense	17,433	-	-	-	(17,433)		(17,433)
Total Governmental Activities	<u>2,686,155</u>	<u>1,007,176</u>	<u>593,455</u>	<u>17,240</u>	<u>(1,068,284)</u>		<u>(1,068,284)</u>
Business-Type Activities:							
Water	509,225	471,099	-	122,401		84,275	84,275
Sewer	684,800	657,187	-	84,272		56,659	56,659
Stormwater	117,074	92,266	-	347,711		322,903	322,903
Other Business-Type Activities	477	-	-	-		(477)	(477)
Total Business-Type Activities	<u>1,311,576</u>	<u>1,220,552</u>	<u>-</u>	<u>554,384</u>		<u>463,360</u>	<u>463,360</u>
Total	\$ <u>3,997,731</u>	<u>2,227,728</u>	<u>593,455</u>	<u>571,624</u>	<u>(1,068,284)</u>	<u>463,360</u>	<u>(604,924)</u>
General Revenues:							
Taxes:							
Property Taxes Levied for:							
General Operations					154,328	-	154,328
Public Safety					1,104,595	-	1,104,595
Street Maintenance and Repair					211,221	-	211,221
Grants and Contributions not Restricted to Specific Programs					172,587	-	172,587
Investment Income					21,025	13,947	34,972
Other Revenue					238,375	31,623	269,998
Gain on Sale of Assets					1,668	-	1,668
Transfers					(24,371)	24,371	-
					<u>1,879,428</u>	<u>69,941</u>	<u>1,949,369</u>
						<u>811,144</u>	<u>1,344,445</u>
						<u>2,766,273</u>	<u>11,759,234</u>
						<u>9,992,961</u>	<u>13,103,679</u>
						<u>3,577,417</u>	<u>13,103,679</u>

See accompanying notes to the basic financial statements.

CITY OF UNION
MONTGOMERY COUNTY, OHIO
Balance Sheet
Governmental Funds
December 31, 2005

	General Fund	Police Fund	Fire/EMS Fund	Street Light Fund	Refuse Fund
ASSETS:					
Cash and Cash Equivalents	\$ 183,531	106,216	141,750	208,821	69,306
Receivables					
Taxes	166,475	699,459	365,231	-	-
Accounts	27,157	-	-	-	4,580
Special Assessments	-	-	-	473,917	-
Due from Other Governments	112,515	45,204	22,961	-	-
Prepaid Items	4,514	5,572	7,015	-	277
Materials and Supplies Inventory	4,903	-	-	-	-
Total Assets	<u>\$ 499,095</u>	<u>856,451</u>	<u>536,957</u>	<u>682,738</u>	<u>74,163</u>
LIABILITIES:					
Accounts Payable	\$ 1,982	2,631	3,833	400	23,827
Accrued Wages and Benefits	3,117	6,498	36	232	1,274
Due to Other Governments	5,443	6,307	2,396	103	2,744
Accrued Interest Payable	1,261	943	-	-	-
Deferred Revenue	268,385	744,663	388,192	473,917	-
Notes Payable	91,277	68,277	-	-	-
Total Liabilities	<u>371,465</u>	<u>829,319</u>	<u>394,457</u>	<u>474,652</u>	<u>27,845</u>
FUND BALANCES:					
Reserved for:					
Materials and Supplies Inventory	4,903	-	-	-	-
Prepaid Items	4,514	5,572	7,015	-	277
Unreserved, Undesignated:					
General Fund	118,213	-	-	-	-
Special Revenue Funds	-	21,560	135,485	208,086	46,041
Capital Projects Funds	-	-	-	-	-
Total Fund Balances	<u>127,630</u>	<u>27,132</u>	<u>142,500</u>	<u>208,086</u>	<u>46,318</u>
Total Liabilities and Fund Balances	<u>\$ 499,095</u>	<u>856,451</u>	<u>536,957</u>	<u>682,738</u>	<u>74,163</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		
34,092	221,385	965,101	Total Governmental Fund Balances	\$ 713,445
215,085	27,087	1,473,337	Amounts reported for governmental activities in the Statement of Net Assets are different because:	
-	-	31,737	Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	2,684,054
-	-	473,917	Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.	435,577
13,517	146,630	340,827	Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
2,902	4,921	25,201	Capital Lease Obligation	(210,743)
-	13,296	18,199	Compensated Absences	(44,916)
<u>265,596</u>	<u>413,319</u>	<u>3,328,319</u>	Net Assets of Governmental Activities	\$ <u>3,577,417</u>
36	1,591	34,300		
191	2,655	14,003		
471	21,305	38,769		
2,914	-	5,118		
228,602	152,671	2,256,430		
<u>106,700</u>	<u>-</u>	<u>266,254</u>		
<u>338,914</u>	<u>178,222</u>	<u>2,614,874</u>		
-	13,296	18,199		
2,902	4,921	25,201		
-	-	118,213		
-	216,880	628,052		
<u>(76,220)</u>	<u>-</u>	<u>(76,220)</u>		
<u>(73,318)</u>	<u>235,097</u>	<u>713,445</u>		
<u>265,596</u>	<u>413,319</u>	<u>3,328,319</u>		

CITY OF UNION
MONTGOMERY COUNTY, OHIO
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2005

	General Fund	Police Fund	Fire/EMS Fund	Street Light Fund	Refuse Fund
REVENUES:					
Property Taxes	\$ 154,970	685,395	359,689	-	-
Intergovernmental Revenue	172,587	104,103	84,035	-	-
Charges for Services	67,542	-	125,273	-	364,946
Special Assessments	-	-	-	332,306	-
Fines, Licenses and Permits	82,990	-	-	-	-
Investment Income	4,273	2,505	2,437	4,289	1,203
Other Revenue	55	1,150	555	-	-
Total Revenues	<u>482,417</u>	<u>793,153</u>	<u>571,989</u>	<u>336,595</u>	<u>366,149</u>
EXPENDITURES:					
Current:					
Security of Persons and Property	-	714,043	619,955	279,553	-
Public Health Services	-	-	-	-	-
Leisure Time Activities	-	-	-	-	-
Community Environment	-	-	-	-	344,274
Transportation	-	-	-	-	-
General Government	324,828	-	-	-	-
Debt Service:					
Principal	-	-	38,975	-	-
Interest	2,883	2,113	4,258	-	-
Total Expenditures	<u>327,711</u>	<u>716,156</u>	<u>663,188</u>	<u>279,553</u>	<u>344,274</u>
Excess (Deficiency) of Revenues Over/ (Under) Expenditures	<u>154,706</u>	<u>76,997</u>	<u>(91,199)</u>	<u>57,042</u>	<u>21,875</u>
OTHER FINANCING SOURCES (USES):					
Proceeds from Sale of Capital Assets	-	162	-	-	-
Inception of Capital Lease	-	-	149,718	100,000	-
Transfers In	2,769	-	34,000	-	-
Transfers Out	(83,000)	(42,000)	-	-	-
Total Other Financing Sources (Uses)	<u>(80,231)</u>	<u>(41,838)</u>	<u>183,718</u>	<u>100,000</u>	<u>-</u>
Net Change in Fund Balances	74,475	35,159	92,519	157,042	21,875
Fund Balance, Beginning of Year	<u>53,155</u>	<u>(8,027)</u>	<u>49,981</u>	<u>51,044</u>	<u>24,443</u>
Fund Balance, End of Year	\$ <u>127,630</u>	<u>27,132</u>	<u>142,500</u>	<u>208,086</u>	<u>46,318</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		
			Total Net Change in Fund Balances - Governmental Funds	\$ 382,161
			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. This is the amount by which depreciation exceeded capital outlay in the current period.	
			Capital Asset Additions	723,654
			Current Year Depreciation	(189,393)
			The issuance of long term debt provides current financial resources to governmental funds, however, in the statement of net assets the debt is reported as a liability	
			Capital Lease Payable	(249,718)
			Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	54,836
			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.	91,585
			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	(1,981)
			Change in Net Assets of Governmental Activities	<u>\$ 811,144</u>
212,003	24,915	1,436,972		
50,539	350,351	761,615		
-	27,421	585,182		
-	-	332,306		
-	6,700	89,690		
1,460	4,858	21,025		
-	1,605	3,365		
<u>264,002</u>	<u>415,850</u>	<u>3,230,155</u>		
-	65,261	1,678,812		
-	12,448	12,448		
-	77,019	77,019		
-	-	344,274		
189,122	259,397	448,519		
-	80,092	404,920		
32,310	20,300	91,585		
7,296	883	17,433		
<u>228,728</u>	<u>515,400</u>	<u>3,075,010</u>		
35,274	(99,550)	155,145		
-	1,507	1,669		
-	-	249,718		
-	91,000	127,769		
(27,140)	-	(152,140)		
<u>(27,140)</u>	<u>92,507</u>	<u>227,016</u>		
8,134	(7,043)	382,161		
(81,452)	242,140	331,284		
<u>(73,318)</u>	<u>235,097</u>	<u>713,445</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, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
Property Taxes	\$ 145,500	155,000	154,970	(30)
Intergovernmental Revenue	167,950	241,025	266,826	25,801
Charges for Services	53,000	57,000	67,542	10,542
Fines, Licenses and Permits	45,180	82,080	82,990	910
Investment Income	1,300	3,800	4,273	473
Total Revenues	412,930	538,905	576,601	37,696
Expenditures:				
Current:				
General Government	412,192	538,167	416,731	121,436
Debt Service:				
Principal	251,800	251,800	246,225	5,575
Interest	2,738	2,738	2,738	-
Total Expenditures	666,730	792,705	665,694	127,011
Excess of Revenues Over (Under) Expenditures	(253,800)	(253,800)	(89,093)	164,707
Other Financing Sources (Uses):				
Proceeds from Sale of Bonds	231,800	231,800	229,900	(1,900)
Transfers In	-	-	2,769	2,769
Transfers Out	(83,000)	(83,000)	(83,000)	-
Total Other Financing Sources (Uses)	148,800	148,800	149,669	869
Net Change in Fund Balance	(105,000)	(105,000)	60,576	165,576
Fund Balance, Beginning of Year	117,796	117,796	117,796	-
Fund Balance, End of Year	\$ 12,796	12,796	178,372	165,576

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, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
Property Taxes	\$ 675,600	675,600	685,395	9,795
Intergovernmental Revenue	58,900	58,900	104,103	45,203
Investment Income	500	500	2,505	2,005
Other Revenue	-	-	1,150	1,150
Total Revenues	735,000	735,000	793,153	58,153
Expenditures:				
Current:				
Security of Persons and Property	731,045	731,045	715,953	15,092
Principal	10,000	10,000	7,425	2,575
Interest	1,955	1,955	1,955	-
Total Expenditures	743,000	743,000	725,333	17,667
Excess of Revenues Over (Under) Expenditures	(8,000)	(8,000)	67,820	75,820
Other Financing Sources (Uses):				
Proceeds from Sale of Capital Assets	-	-	162	162
Transfers Out	(42,000)	(42,000)	(42,000)	-
Total Other Financing Sources (Uses)	(42,000)	(42,000)	(41,838)	162
Net Change in Fund Balance	(50,000)	(50,000)	25,982	75,982
Fund Balance, Beginning of Year	80,234	80,234	80,234	-
Fund Balance, End of Year	\$ 30,234	30,234	106,216	75,982

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, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
Property Taxes	\$ 356,700	356,700	359,689	2,989
Intergovernmental Revenue	22,300	22,300	84,035	61,735
Charges for Services	72,000	118,101	125,273	7,172
Investment Income	200	200	2,437	2,237
Other Revenue	-	-	555	555
Total Revenues	451,200	497,301	571,989	74,688
Expenditures:				
Current:				
Security of Persons and Property	485,200	531,301	528,281	3,020
Total Expenditures	485,200	531,301	528,281	3,020
Excess of Revenues Over (Under) Expenditures	(34,000)	(34,000)	43,708	77,708
Other Financing Sources:				
Transfers In	34,000	34,000	34,000	-
Total Other Financing Sources	34,000	34,000	34,000	-
Net Change in Fund Balance	-	-	77,708	77,708
Fund Balance, Beginning of Year	64,042	64,042	64,042	-
Fund Balance, End of Year	\$ 64,042	64,042	141,750	77,708

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, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
Special Assessments	\$ 307,000	307,000	332,306	25,306
Investment Income	500	500	4,043	3,543
Total Revenues	<u>307,500</u>	<u>307,500</u>	<u>336,349</u>	<u>28,849</u>
Expenditures:				
Current:				
Security of Persons and Property	348,500	348,500	279,904	68,596
Total Expenditures	<u>348,500</u>	<u>348,500</u>	<u>279,904</u>	<u>68,596</u>
Excess of Revenues Over (Under) Expenditures	<u>(41,000)</u>	<u>(41,000)</u>	<u>56,445</u>	<u>97,445</u>
OTHER FINANCING SOURCES (USES):				
Inception of Capital Lease	-	-	100,246	100,246
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>100,246</u>	<u>100,246</u>
Net Change in Fund Balances	(41,000)	(41,000)	156,691	197,691
Fund Balance, Beginning of Year	<u>52,130</u>	<u>52,130</u>	<u>52,130</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 11,130</u>	<u>11,130</u>	<u>208,821</u>	<u>197,691</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, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
Intergovernmental Revenue	\$ -	-	7,100	7,100
Charges for Services	335,000	335,000	360,504	25,504
Investment Income	400	400	1,203	803
Total Revenues	<u>335,400</u>	<u>335,400</u>	<u>368,807</u>	<u>33,407</u>
Expenditures:				
Current:				
Community Environment	372,900	372,900	342,906	29,994
Total Expenditures	<u>372,900</u>	<u>372,900</u>	<u>342,906</u>	<u>29,994</u>
Excess of Revenues Over (Under) Expenditures	(37,500)	(37,500)	25,901	63,401
Fund Balance, Beginning of Year	<u>43,055</u>	<u>43,055</u>	<u>43,055</u>	<u>-</u>
Fund Balance, End of Year	<u><u>\$ 5,555</u></u>	<u><u>5,555</u></u>	<u><u>68,956</u></u>	<u><u>63,401</u></u>

See accompanying notes to the basic financial statements.

CITY OF UNION
MONTGOMERY COUNTY, OHIO
Statement of Fund Net Assets
Proprietary Funds
December 31, 2005

	Water	Sewer	Stormwater	Non-Major Enterprise	Total
Assets:					
Current Assets:					
Cash and Cash Equivalents	\$ 307,791	263,809	43,531	-	615,131
Accounts Receivable	40,435	34,691	1,066	-	76,192
Prepaid Items	1,520	2,614	277	-	4,411
Total Current Assets	349,746	301,114	44,874	-	695,734
Non-current Assets					
Construction in Progress	-	-	18,123	-	18,123
Depreciable Capital Assets, net	3,490,489	3,803,474	2,028,628	-	9,322,591
Total Non-current Assets	3,490,489	3,803,474	2,046,751	-	9,340,714
Total Assets	3,840,235	4,104,588	2,091,625	-	10,036,448
Liabilities:					
Current Liabilities:					
Accounts Payable	5,205	3,674	79	-	8,958
Accrued Salaries Payable	2,499	3,577	300	-	6,376
Accrued Interest Payable	3,880	486	1,289	-	5,655
Intergovernmental Payable	7,667	12,567	522	-	20,756
Notes Payable	280,773	35,173	93,300	-	409,246
Capital Lease Payable	-	6,067	-	-	6,067
Total Current Liabilities	300,024	61,544	95,490	-	457,058
Long Term Liabilities:					
Compensated Absences Payable	21,421	29,261	2,446	-	53,128
Total Long Term Liabilities	21,421	29,261	2,446	-	53,128
Total Liabilities	321,445	90,805	97,936	-	510,186
Net Assets:					
Invested in capital assets, net of related debt	3,209,716	3,762,234	1,953,451	-	8,925,401
Unrestricted	309,074	251,549	40,238	-	600,861
Total Fund Equity	3,518,790	4,013,783	1,993,689	-	9,526,262
Total Liabilities and Fund Equity	\$ 3,840,235	4,104,588	2,091,625	-	10,036,448

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, 2005

	Water	Sewer	Stormwater	Non-major Enterprise	Total
Operating Revenues:					
Charges for Services	\$ 415,549	600,387	92,266	-	1,108,202
Tap-In Fees	55,550	56,800	-	-	112,350
Other Operating Revenue	22,849	5,760	-	-	28,609
Total Operating Revenue	493,948	662,947	92,266	-	1,249,161
Operating Expenses:					
Personal Services	227,155	333,887	33,375	-	594,417
Contractual Services	110,782	133,903	14,707	477	259,869
Supplies and Materials	41,193	67,404	4,265	-	112,862
Depreciation	119,270	144,114	61,647	-	325,031
Total Operating Expenses	498,400	679,308	113,994	477	1,292,179
Operating Income (Loss)	(4,452)	(16,361)	(21,728)	(477)	(43,018)
Non-Operating Revenues (Expenses):					
Interest	6,057	7,012	878	-	13,947
Grant Revenue	17,540	4,595	225,224	-	247,359
Interest and Fiscal Charges	(8,986)	(3,303)	(2,759)	-	(15,048)
Gain (loss) on Sale of Assets	1,507	1,507	-	-	3,014
Other Non-Operating Expenses	(1,839)	(2,189)	(321)	-	(4,349)
Total Non-Operating Expenses	14,279	7,622	223,022	-	244,923
Income (Loss) Before Operating Transfers and Capital Contributions	9,827	(8,739)	201,294	(477)	201,905
Transfer-in	40,852	-	-	-	40,852
Transfer-out	-	(3,120)	(10,592)	(2,769)	(16,481)
Capital Contributions	122,401	84,272	100,352	-	307,025
Net Income	173,080	72,413	291,054	(3,246)	533,301
Net Assets at Beginning of Year, restated	3,345,710	3,941,370	1,702,635	3,246	8,992,961
Net Assets at End of Year	\$ 3,518,790	4,013,783	1,993,689	-	9,526,262

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, 2005

	Water	Sewer	Stormwater	Non-major Enterprise	Total
Cash Flows from Operating Activities:					
Cash Received from Customers	\$ 498,777	666,648	93,009	-	1,258,434
Cash Payments to Employees for Services and Benefits	(222,858)	(322,685)	(33,785)	-	(579,328)
Cash Payments to Suppliers for Goods and Services	(147,045)	(201,153)	(19,637)	(1,114)	(368,949)
Net Cash Provided(Used) by Operating Activities	128,874	142,810	39,587	(1,114)	310,157
Cash Flows from Noncapital Financing Activities:					
Grant Revenue	17,540	4,595	225,224	-	247,359
Other Non-operating expenses	-	(2,189)	(321)	-	(2,510)
Transfers-In	40,852	-	-	-	40,852
Transfers-Out	-	(3,120)	(10,592)	(2,769)	(16,481)
Net Cash Provided(Used) by Noncapital Financing Activities:	58,392	(714)	214,311	(2,769)	269,220
Cash Flows from Capital and Related Financing Activities:					
Acquisition of Capital Assets	(160,483)	(291,895)	(327,236)	-	(779,614)
Proceeds from Sale of Assets	1,507	1,507	-	-	3,014
Proceeds from Sale of Notes	280,773	35,173	93,300	-	409,246
Principal Paid on Capital Leases	-	(5,797)	-	-	(5,797)
Principal Paid on Bonds	(50,560)	(41,830)	-	-	(92,390)
Principal Paid on Notes	(317,278)	(38,515)	(98,703)	-	(454,496)
Interest expense	(8,544)	(3,861)	(3,804)	-	(16,209)
Net Cash Used in Capital and Related Financing Activities	(254,585)	(345,218)	(336,443)	-	(936,246)
Cash Flows from Investing Activities:					
Interest	6,057	7,012	878	-	13,947
Net Cash Provided by Investing Activities	6,057	7,012	878	-	13,947
Net Decrease in Cash and Cash Equivalents	(61,262)	(196,110)	(81,667)	(3,883)	(342,922)
Cash and Cash Equivalents Beginning of Year	369,053	459,919	125,198	3,883	958,053
Cash and Cash Equivalents End of Year	\$ 307,791	263,809	43,531	-	615,131
<i>Reconciliation of Operating Loss to Net Cash Provided(Used) by Operating Activities:</i>					
Operating Loss	\$ (4,452)	(16,361)	(21,728)	(477)	(43,018)
Adjustments to Reconcile Operating Loss to Net Cash Provided(Used) by Operating Activities:					
Depreciation	119,270	144,114	61,647	-	325,031
Changes in Assets and Liabilities					
(Increase) Decrease in Accounts Receivable	4,829	3,701	743	-	9,273
(Increase) Decrease in Supplies Inventory	5,083	-	-	-	5,083
(Increase) Decrease in Prepaid Items	2,026	(614)	40	-	1,452
Increase (Decrease) in Accounts Payable	(2,894)	1,275	(676)	-	(2,295)
Increase in Accrued Salaries Payable	(750)	(34)	(233)	-	(1,017)
Increase (Decrease) in Intergovernmental Payable	1,640	3,628	(275)	(637)	4,356
Increase in Compensated Absences Payable	4,122	7,101	69	-	11,292
Net Cash Provided(Used) by Operating Activities	\$ 128,874	142,810	39,587	(1,114)	310,157

Noncash Capital Financing Activities:

Developers donated water, sewer and stormwater lines with fair market values totaling \$122,401, \$84,272 and \$100,352, respectively.

See accompanying notes to the basic financial statements.

CITY OF UNION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

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, 2005

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, 2005

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 residents and commercial and industrial users within the City.

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

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

CITY OF UNION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

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, 2005

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, 2005, but which were levied to finance 2006 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, 2005

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 2005. 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, 2005.

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 2005 amounted to \$34,972.

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, 2005

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, 2005

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, 2005

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, 2005

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	\$ 74,475	\$ 35,159	\$ 92,519	\$ 157,042	\$ 21,875
Revenue Accruals	43,857	-	-	(246)	2,658
Expenditure Accruals	(287,656)	(9,177)	134,907	(351)	1,368
Debt Proceeds	229,900	-	(149,718)	246	-
Transfers	-	-	-	-	-
Budget Basis	<u>\$ 60,576</u>	<u>\$ 25,982</u>	<u>\$ 77,708</u>	<u>\$ 156,691</u>	<u>\$ 25,901</u>

NOTE 4 – CHANGE IN ACCOUNTING PRINCIPLE

For the fiscal year 2005, the City implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, “*Deposit and Investment Risk Disclosures*”. GASB Statement No. 40 establishes and modifies disclosure requirements related to investment risk: credit risk, interest rate risk and foreign currency risk. This statement also establishes and modifies disclosure requirements for deposit risk: custodial credit risk and foreign currency risk. The implementation of this statement had no effect on the reported net assets or fund balances.

CITY OF UNION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

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 \$382,208 and the bank balance was \$458,664. \$199,000 of the bank balance was covered by federal depository insurance and \$259,664 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 \$1,198,024. 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, investment 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 specifically 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, 2005

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, 2005, 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 2005 property tax receipts were based are as follows:

Real property:	
Residential/agricultural	\$ 83,012,300
Commercial/industrial	3,733,410
Tangible personal property:	
Public utilities	1,343,280
General	<u>2,880,212</u>
Total valuation	<u>\$ 90,969,202</u>

CITY OF UNION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

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, 2005. 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 2005 operations. The receivable is therefore offset by a credit to deferred revenue.

NOTE 7 - RECEIVABLES

Receivables at December 31, 2005, 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, 2005 was \$76,192.

A summary of the governmental activities intergovernmental receivables follows:

<u>Governmental Activities:</u>	
Homestead/Rollback Property Relief	\$ 93,355
Local Government Assistance	94,760
Gasoline Tax	106,337
Motor Vehicle License Fees	24,128
Permissive Motor Vehicle License Tax	14,554
Inheritance Shared Tax	6,883
Other	<u>810</u>
Total	<u><u>\$ 340,827</u></u>

CITY OF UNION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2005 was as follows:

	Balance 12/31/2004	Additions	Deletions	Balance 12/31/2005
Governmental Activities:				
Non-depreciable capital assets				
Land	\$ 581,806	16,200	-	\$ 598,006
Construction in Progress	-	<u>67,015</u>	-	<u>67,015</u>
Total Non-depreciable capital assets	581,806	83,215	-	665,021
Depreciable capital assets				
Buildings	919,919	-	-	919,919
Equipment	1,423,127	83,263	(8,674)	1,497,716
Infrastructure	282,289	321,355	-	603,644
Vehicles	<u>157,425</u>	<u>235,821</u>	-	<u>393,246</u>
Total depreciable capital assets	2,782,760	640,439	(8,674)	3,414,525
Less: accumulated depreciation				
Buildings	(176,707)	(20,462)	-	(197,169)
Equipment	(940,221)	(128,143)	8,674	(1,059,690)
Infrastructure	(2,612)	(9,003)	-	(11,615)
Vehicles	<u>(95,233)</u>	<u>(31,785)</u>	-	<u>(127,018)</u>
Total accumulated depreciation	(1,214,773)	(189,393) *	8,674	(1,395,492)
Depreciable capital assets, net	<u>1,567,987</u>	<u>451,046</u>	-	<u>2,019,033</u>
Governmental Activities Capital Assets, Net	<u>\$ 2,149,793</u>	<u>534,261.00</u>	-	<u>\$ 2,684,054</u>

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

General Government	\$ 107,954
Public Safety	77,651
Transportation	<u>3,788</u>
Total Depreciation Expense	<u>\$ 189,393</u>

CITY OF UNION, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 8 - CAPITAL ASSETS (continued)

	Balance 12/31/2004	Additions	Deletions	Balance 12/31/2005
Business Type Activities:				
Non-depreicalbe capital assets				
Construction in Progress	33,891	18,123	(33,891)	\$ 18,123
Depreciable capital assets				
Buildings	3,160,676	9,560	-	3,170,236
Equipment	624,756	159,354	-	784,110
Infrastructure	9,770,813	923,949	-	10,694,762
Vehicles	<u>30,562</u>	<u>9,544</u>	-	<u>40,106</u>
Total depreciable capital assets	13,586,807	1,102,407	-	14,689,214
Less: accumulated depreciation				
Buildings	(1,869,008)	(61,414)	-	(1,930,422)
Equipment	(338,634)	(40,076)	-	(378,710)
Infrastructure	(2,829,280)	(217,812)	-	(3,047,092)
Vehicles	<u>(4,670)</u>	<u>(5,729)</u>	-	<u>(10,399)</u>
Total accumulated depreciation	(5,041,592)	(325,031)	-	(5,366,623)
Depreciable capital assets, net	<u>8,545,215</u>	<u>777,376</u>	-	<u>9,322,591</u>
Business Type Activities Capital Assets, Net	<u>\$ 8,579,106</u>	<u>795,499</u>	<u>(33,891)</u>	<u>\$ 9,340,714</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, 2005

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 2005, member and employer contribution rates were consistent across all three plans (TP, MD, and CO). The 2005 member contribution rates were 8.5% of their annual covered salary. The 2005 employer contribution rate for local government employer units was 13.55% of covered payroll. The City's contributions to the plan for the years ending December 31, 2005, 2004 and 2003 were \$138,669, \$142,769 and \$126,745, 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 2005 was \$33,652 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, 2005, 2004 and 2003 were \$60,518, \$47,614, and \$57,213. The City's contributions include a full pick-up on the police chief. The unpaid contribution for 2005 was \$15,514 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, 2005

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 2005 employer contribution rate was 13.55%; 4.00% was the portion that was used to fund health care for the year. The portion of the City's contributions for 2005 used to fund post-employment benefits was \$40,936.

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, 2004.

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 2004 was 8.00%

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 1% to 6% for the next 8 years. In subsequent years (9 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, 2005, the number of active contributing participants in the Traditional and Combined Plans totaled 355,287. \$10.8 billion represents the actuarial value of the Retirement System's net assets available for OPEBs at December 31, 2004. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$29.5 billion and \$18.7 billion, respectively.

CITY OF UNION, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 10 - POSTEMPLOYMENT BENEFITS (continued)

On September 29, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

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 2004 and 2005. 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, 2004, the date of the last actuarial valuation available, was 13,812 for police and 10,528 for firefighters. The City's portion of current year contributions to fund post retirement benefits was \$24,025. The fund's total health care expenses for the year ending December 31, 2004, the date of the last actuarial valuation available, was \$102,173,796, which was net of member contributions of \$55,665,341.

CITY OF UNION, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2005

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 \$45,183 at December 31, 2005.

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, 2005 was \$52,861.

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 2005 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 nor did coverage amounts decrease significantly from the prior year.

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, 2005

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 2005, 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

During 2005 the city entered into two lease agreements for the acquisition of an ambulance and a bucket truck. Also, the City purchased a Kut-Kwick mower in a previous year through a lease agreement. These 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 for the 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 2005 for capital leases were \$44,772.

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, 2005.

Year ending December 31,	Capital Lease Obligation
2006	55,761
2007	49,405
2008	49,405
2009	49,405
2010	35,923
Total minimum lease payments	239,899
Less: Amount representing interest	(23,089)
Minimum lease payments	\$ 216,810

CITY OF UNION, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 14 - SHORT-TERM OBLIGATIONS

A summary of the short-term note transactions for the year ended December 31, 2005 follows:

	Balance 12/31/2004	Additions	Deletions	Balance 12/31/2005
Bond Anticipation Notes:				
Governmental activities:				
St. Rt. 48 reconstruction, 3.29%	\$ 119,500	106,700	(119,500)	\$ 106,700
Martindale Road, 3.29%	31,900	23,000	(31,900)	23,000
City Hall renovation, 3.29%	<u>151,404</u>	<u>136,554</u>	<u>(151,404)</u>	<u>136,554</u>
Total governmental activities	<u>302,804</u>	<u>266,254</u>	<u>(302,804)</u>	<u>266,254</u>
Business-type activities:				
Well #4, 3.29%	170,200	155,800	(170,200)	155,800
St. Rt. 48 water line, 3.29%	106,300	89,800	(106,300)	89,800
Merrymaid storm culvert, 3.29%	100,000	93,300	(100,000)	93,300
City Hall renovation, 3.29%	<u>77,996</u>	<u>70,346</u>	<u>(77,996)</u>	<u>70,346</u>
Total business-type activities	<u>454,496</u>	<u>409,246</u>	<u>(454,496)</u>	<u>409,246</u>
 Total bond anticipation notes	 <u>\$ 757,300</u>	 <u>675,500</u>	 <u>(757,300)</u>	 <u>\$ 675,500</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 purchase of property for future expansion of the fire department.

CITY OF UNION, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 15 - LONG-TERM OBLIGATIONS

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

	Balance 12/31/2004	Additions	Deletions	Balance 12/31/2005	Amount Due In One Year
<u>Governmental Activities:</u>					
Compensated absences	\$ 42,935	25,577	(23,596)	\$ 44,916	\$ 24,500
General obligation bonds	52,610	-	(52,610)	-	-
Capital lease obligation	-	249,718	(38,975)	210,743	49,694
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total governmental activities	\$ 95,545	275,295	(115,181)	\$ 255,659	\$ 74,194
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>Business-type Activities:</u>					
Compensated absences	\$ 41,836	23,296	(12,004)	\$ 53,128	\$ 30,500
General obligation bonds	92,390	-	(92,390)	-	-
Capital lease obligation	11,864	-	(5,797)	6,067	6,067
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total business-type activities	\$ 146,090	23,296	(110,191)	\$ 59,195	\$ 36,567
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

As of December 31, 2005, the City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$8,876,266.

In 1999, the City issued \$850,000 in general obligation bonds to provide financing for various roadway and utility projects. These bonds had interest rates ranging from 3.25 percent to 4.35 percent over the term of the bonds. Repayment of these bonds was provided from the Street and Street Levy governmental funds and from the Water, Sewer and Storm Water enterprise funds, the funds that received the proceeds of the bonds. The final payment on these bonds occurred during 2005.

Compensated absences are paid from the fund in which the employee's payroll is charged.

NOTE 16 - FEDERAL AND STATE GRANTS

For the period January 1, 2005 to December 31, 2005 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 Capital Project fund had deficit fund equity of \$73,318 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. The Grants special revenue fund had deficit fund equity of \$8,023 due to expenditures exceeding receipts in that fund.

CITY OF UNION, OHIO
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 18 – INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2005, consisted of the following:

<u>Transfer From:</u>	<u>Transfer To:</u>				<u>Total</u>
	<u>General</u>	<u>Fire/EMS</u>	<u>Sewer</u>	<u>Non-Major Governmental</u>	
General	\$ -	\$ 34,000	\$ -	\$ 49,000	\$ 83,000
Police	-	-	-	42,000	42,000
Street Levy	-	-	27,140	-	27,140
Sewer	-	-	3,120	-	3,120
Stormwater	-	-	10,592	-	10,592
Non-Major Governmental	<u>2,769</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,769</u>
Total	<u>\$ 2,769</u>	<u>\$ 34,000</u>	<u>\$ 40,852</u>	<u>\$ 91,000</u>	<u>\$ 168,621</u>

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

In August 2006, the City issued \$1.2 million in bond anticipation notes to finance the construction and renovation of the City's firehouse. The notes carry a 4.5 percent interest rate and are due in one year from the date of issue.

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.



Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS
www.cshco.com

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, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 19, 2007. 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 in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings and responses as item 2005-001.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected with in a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described 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 November 19, 2007.

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.

Clark, Schaefer, Hachett & Co.

Springfield, Ohio
November 19, 2007

**CITY OF UNION, OHIO
SCHEDULE OF AUDIT FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2005**

Audit Finding 2005-001: 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.



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**