

**CITY OF UNION, OHIO**

**Financial Statements**

**December 31, 2003**

**with**

**Independent Auditors' Report**





**Auditor of State  
Betty Montgomery**

City Council  
City of Union  
Union, Ohio

We have reviewed the Independent Auditor's Report of the City of Union, Montgomery County, prepared by Clark, Schaefer, Hackett & Co., for the audit period January 1, 2003 through December 31, 2003. 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.

*Betty Montgomery*

BETTY MONTGOMERY  
Auditor of State

November 22, 2004

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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

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

We have audited the accompanying general-purpose financial statements of the City of Union, Ohio (the City) as of and for the year ended December 31, 2003, as listed in the table of contents. These general-purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above, present fairly, in all material respects, the financial position of the City of Union, Ohio as of December 31, 2003, and the results of its operations and the cash flows of its enterprise 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 September 3, 2004, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Clark, Schaefer, Hackett & Co.*

Springfield, Ohio  
September 3, 2004

**CITY OF UNION, OHIO**  
**COMBINED BALANCE SHEET**  
**ALL FUND TYPES AND ACCOUNT GROUPS**  
**DECEMBER 31, 2003**

	Governmental Fund Types			Proprietary Fund Type
	General	Special Revenue	Capital Projects	Enterprise
<u>Assets and Other Debits:</u>				
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$ 119,170	370,829	14,404	704,448
Receivables:				
Taxes	152,019	597,974	207,831	-
Accounts	27,544	6,297	-	77,020
Special Assessments	-	349,618	-	-
Intergovernmental Receivable	11,755	17,797	-	-
Supplies Inventory	2,271	10,467	-	4,884
Prepaid Items	2,071	5,976	-	4,170
Land	-	-	-	-
Buildings	-	-	-	2,957,445
Equipment	-	-	-	782,249
Vehicles	-	-	-	-
Water and Sewer Lines	-	-	-	9,692,844
Less: Accumulated Depreciation	-	-	-	(4,859,392)
Other Debits:				
Amount to be Provided for Retirement of General Long Term Obligations	-	-	-	-
Total Assets and Other Debits	<u>\$ 314,830</u>	<u>1,358,958</u>	<u>222,235</u>	<u>9,363,668</u>
<u>Liabilities, Fund Equity and Other Credits</u>				
Liabilities:				
Accounts Payable	\$ 12,553	24,678	-	12,146
Accrued Salaries Payable	941	4,518	-	3,959
Accrued Interest Payable	962	646	819	3,534
Intergovernmental Payable	2,011	31,024	221	20,269
Deferred Revenue	138,584	894,789	189,430	-
Compensated Absences Payable	-	-	-	55,834
Notes Payable	125,151	84,051	132,600	394,598
General Obligation Bonds Payable	-	-	-	153,140
Capital Lease Payable	-	-	-	45,039
Total Liabilities	<u>280,202</u>	<u>1,039,706</u>	<u>323,070</u>	<u>688,519</u>
<u>Fund Equity and Other Credits:</u>				
Investment in General Fixed Assets	-	-	-	-
Contributed Capital	-	-	-	5,549,682
Retained Earnings:				
Unreserved	-	-	-	3,125,467
Fund Balances:				
Reserved for Supplies Inventory	2,271	10,467	-	-
Unreserved:				
Unreserved	32,357	308,785	(100,835)	-
Total Fund Equity and Other Credits	<u>34,628</u>	<u>319,252</u>	<u>(100,835)</u>	<u>8,675,149</u>
Total Liabilities, Fund Equity and Other Credits	<u>\$ 314,830</u>	<u>1,358,958</u>	<u>222,235</u>	<u>9,363,668</u>

See accompanying notes to the general purpose financial statements.



Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
	General Fixed Assets	General Long-Term Obligations	
20,436	-	-	1,229,287
24,292	-	-	982,116
-	-	-	110,861
-	-	-	349,618
-	-	-	29,552
-	-	-	17,622
-	-	-	12,217
-	561,586	-	561,586
-	933,616	-	3,891,061
-	1,609,522	-	2,391,771
-	137,385	-	137,385
-	-	-	9,692,844
-	-	-	(4,859,392)
-	-	206,896	206,896
<u>44,728</u>	<u>3,242,109</u>	<u>206,896</u>	<u>14,753,424</u>
-	-	-	49,377
-	-	-	9,418
-	-	-	5,961
-	-	27,947	81,472
22,165	-	-	1,244,968
-	-	52,089	107,923
-	-	-	736,400
-	-	126,860	280,000
-	-	-	45,039
<u>22,165</u>	<u>-</u>	<u>206,896</u>	<u>2,560,558</u>
-	3,242,109	-	3,242,109
-	-	-	5,549,682
-	-	-	3,125,467
-	-	-	12,738
<u>22,563</u>	<u>-</u>	<u>-</u>	<u>262,870</u>
<u>22,563</u>	<u>3,242,109</u>	<u>-</u>	<u>12,192,866</u>
<u>44,728</u>	<u>3,242,109</u>	<u>206,896</u>	<u>14,753,424</u>

**CITY OF UNION, OHIO**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**

	Governmental Fund Types			Fiduciary	Total (Memorandum Only)
	General	Special Revenue	Capital Projects	Expensible Trust	
Revenues:					
Property and Other Taxes	155,670	623,318	214,545	24,668	1,018,201
Intergovernmental	194,810	449,425	27,301	4,125	675,661
Special Assessments	-	272,687	-	-	272,687
Charges for Services	57,641	432,715	-	-	490,356
Fines, Licenses and Permits	100,489	8,300	-	-	108,789
Interest	3,365	3,009	450	174	6,998
Other	7,014	13,598	-	-	20,612
<b>Total Revenues</b>	<b>518,989</b>	<b>1,803,052</b>	<b>242,296</b>	<b>28,967</b>	<b>2,593,304</b>
Expenditures:					
Current:					
Security of Persons and Property	-	962,554	-	51,086	1,013,640
Public Health Services	-	332,330	-	-	332,330
Leisure Time Activities	-	58,749	-	-	58,749
Community Environment	-	11,789	-	-	11,789
Transportation	-	215,232	86,640	-	301,872
General Government	394,602	-	-	-	394,602
Capital Outlay	24,430	212,131	74,365	-	310,926
Debt Service:					
Principal Retirement	-	18,200	53,300	-	71,500
Interest and Fiscal Charges	2,327	1,000	11,540	-	14,867
<b>Total Expenditures</b>	<b>421,359</b>	<b>1,811,985</b>	<b>225,845</b>	<b>51,086</b>	<b>2,510,275</b>
Excess of Revenues Over (Under) Expenditures	97,630	(8,933)	16,451	(22,119)	83,029
Other Financing Sources (Uses):					
Proceeds from Sale of Assets	-	2,044	-	-	2,044
Operating Transfers-In	-	219,300	-	35,000	254,300
Operating Transfers-Out	(75,300)	(39,910)	(146,310)	-	(261,520)
<b>Total Other Financing Sources (Uses)</b>	<b>(75,300)</b>	<b>181,434</b>	<b>(146,310)</b>	<b>35,000</b>	<b>(5,176)</b>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	22,330	172,501	(129,859)	12,881	77,853
Fund Balance at Beginning of Year	13,552	137,018	29,024	9,682	189,276
Increase (Decrease) in Reserve for Inventory	(1,254)	9,733	-	-	8,479
<b>Fund Balance at End of Year</b>	<b>\$ 34,628</b>	<b>319,252</b>	<b>(100,835)</b>	<b>22,563</b>	<b>275,608</b>

See accompanying notes to the general purpose financial statements

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**CITY OF UNION, OHIO**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (BUDGET BASIS)**  
**ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable/ (Unfavorable)	Revised Budget	Actual	Variance Favorable/ (Unfavorable)
Revenues:						
Property and Other Taxes	140,068	142,235	2,167	575,405	570,515	(4,890)
Intergovernmental	175,071	180,748	5,677	417,092	446,515	29,423
Special Assessments	-	12,630	12,630	292,691	272,687	(20,004)
Charges for Services	44,000	57,641	13,641	425,774	434,405	8,631
Fines, Licenses and Permits	69,202	100,489	31,287	5,000	8,300	3,300
Interest	2,000	1,406	(594)	4,650	3,009	(1,641)
Other	-	3,000	3,000	-	13,598	13,598
<b>Total Revenues</b>	<b>430,341</b>	<b>498,149</b>	<b>67,808</b>	<b>1,720,612</b>	<b>1,749,029</b>	<b>28,417</b>
Expenditures:						
Current:						
Security of Persons and Property	-	-	-	976,063	948,634	27,429
Public Health Services	-	-	-	13,168	12,998	170
Leisure Time Activities	-	-	-	62,480	54,195	8,285
Community Environment	-	-	-	348,769	329,603	19,166
Transportation	-	-	-	246,698	223,257	23,441
Capital Outlay	27,054	24,430	2,624	294,357	212,130	82,227
Debt Service:						
Principal Retirement	324,455	313,249	11,206	26,677	26,549	128
Interest and Fiscal Charges	2,345	2,345	-	3,965	3,965	-
<b>Total Expenditures</b>	<b>733,460</b>	<b>707,564</b>	<b>25,896</b>	<b>1,972,177</b>	<b>1,811,331</b>	<b>160,846</b>
Excess of Revenues Over(Under) Expenditures	(303,119)	(209,415)	93,704	(251,565)	(62,302)	189,263
Other Financing Sources (Uses):						
Operating Transfers-In	-	-	-	75,300	75,300	-
Operating Transfers-Out	(119,300)	(111,526)	7,774	(52,100)	(50,628)	1,472
Proceeds from the Sale of Assets	-	-	-	-	2,044	-
Proceeds from the Sale of Notes	306,800	295,800	(11,000)	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>187,500</b>	<b>184,274</b>	<b>(3,226)</b>	<b>23,200</b>	<b>26,716</b>	<b>1,472</b>
Excess of Revenues and Other Financing Sources Over(Under) Expenditures and Other Financing Uses	(115,619)	(25,141)	90,478	(228,365)	(35,586)	190,735
Fund Balance at Beginning of Year	131,530	131,530	-	406,409	406,409	-
Fund Balance at End of Year	<u>\$ 15,911</u>	<u>106,389</u>	<u>90,478</u>	<u>178,044</u>	<u>370,823</u>	<u>190,735</u>

See accompanying notes to the general purpose financial statements

Capital Project Funds			Expendable Trust Fund		
Revised Budget	Actual	Variance Favorable/ (Unfavorable)	Revised Budget	Actual	Variance Favorable/ (Unfavorable)
193,359	196,144	2,785	20,176	22,541	2,365
25,880	27,301	1,421	2,490	4,125	1,635
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
1,000	450	(550)	100	174	74
-	-	-	-	-	-
<u>220,239</u>	<u>223,895</u>	<u>3,656</u>	<u>22,766</u>	<u>26,840</u>	<u>4,074</u>
-	-	-	63,815	51,086	12,729
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
99,743	95,992	3,751	-	-	-
77,087	75,354	1,733	-	-	-
-	-	-	-	-	-
197,429	197,301	128	-	-	-
10,721	10,721	-	-	-	-
<u>384,980</u>	<u>379,368</u>	<u>5,612</u>	<u>63,815</u>	<u>51,086</u>	<u>12,729</u>
<u>(164,741)</u>	<u>(155,473)</u>	<u>9,268</u>	<u>(41,049)</u>	<u>(24,246)</u>	<u>16,803</u>
-	-	-	35,000	35,000	-
-	-	-	-	-	-
-	-	-	-	-	-
132,700	132,600	(100)	-	-	-
<u>132,700</u>	<u>132,600</u>	<u>(100)</u>	<u>35,000</u>	<u>35,000</u>	<u>-</u>
(32,041)	(22,873)	9,168	(6,049)	10,754	16,803
37,278	37,278	-	9,684	9,684	-
<u>5,237</u>	<u>14,405</u>	<u>9,168</u>	<u>3,635</u>	<u>20,438</u>	<u>16,803</u>

**CITY OF UNION, OHIO**  
**COMBINED STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN RETAINED EARNINGS**  
**ALL ENTERPRISE FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**

	Proprietary Fund Type
	Enterprise
Operating Revenues:	
Charges for Services	\$ 1,005,102
Tap-In Fees	137,800
Other Operating Revenue	24,978
Total Operating Revenue	1,167,880
Operating Expenses:	
Personal Services	490,554
Contractual Services	257,719
Supplies and Materials	139,134
Depreciation	326,840
Total Operating Expenses	1,214,247
Operating Loss	(46,367)
Non-Operating Income (Expenses):	
Special Assessment	5,981
Interest	6,183
Interest and Fiscal Charges	(19,058)
Total Non-Operating Expenses	(6,894)
Loss Before Operating Transfers	(53,261)
Operating Transfers-In	25,851
Operating Transfers-Out	(18,631)
Net Loss	(46,041)
Depreciation on Contributed Capital	167,661
Retained Earnings at Beginning of Year	3,003,847
Retained Earnings at End of Year	\$ 3,125,467

See accompanying notes to the general purpose financial statements

**CITY OF UNION, OHIO**  
**COMBINED STATEMENT OF CASH FLOWS**  
**ALL ENTERPRISE FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**

	Proprietary Fund Type
	Enterprise
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities:	
Cash Received from Customers	\$ 1,154,452
Cash Payments to Employees for Services and Benefits	(479,737)
Cash Payments to Suppliers for Goods and Services	(406,800)
Other operating revenue	24,978
Net Cash Provided by Operating Activities	292,893
Cash Flows from Noncapital Financing Activities:	
Special Assessments	5,981
Transfers-In	25,851
Transfers-Out	(18,631)
Net Cash Provided by Noncapital Financing Activities	13,201
Cash Flows from Capital and Related Financing Activities:	
Acquisition of Capital Assets	(222,467)
Principal payments on capital leases	(31,737)
Interest payments on capital leases	(3,496)
Proceeds from Sale of Notes	594,598
Principal Paid on Notes	(483,500)
Principal Paid on Bonds	(58,500)
Interest Paid on Notes	(6,885)
Interest Paid on Bonds	(7,848)
Net Cash Used in Capital and Related Financing Activities	(219,835)
Cash Flows from Investing Activities:	
Interest on Investments	6,183
Net Cash Provided by Investing Activities	6,183
Net Increase in Cash and Cash Equivalents	92,442
Cash and Cash Equivalents Beginning of Year	612,006
Cash and Cash Equivalents End of Year	\$ 704,448

(Continued)

**CITY OF UNION, OHIO**  
COMBINED STATEMENT OF CASH FLOWS  
ALL ENTERPRISE FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2003  
(Continued)

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Reconciliation of Operating Loss to Net Cash

Provided by Operating Activities:	
Operating Loss	\$ (46,367)
Adjustments to Reconcile Operating Income to Net	
Cash Provided by Operating Activities:	
Depreciation	326,840
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	11,550
Decrease in Supplies Inventory	1,879
Increase in Prepaid Items	(725)
Decrease in Accounts Payable	(10,117)
Decrease in Accrued Salaries Payable	(1,715)
Increase in Intergovernmental Payable	5,752
Increase in Compensated Absences Payable	5,796
	<hr/>
Net Cash Provided by Operating Activities	<u>\$ 292,893</u>

Noncash Capital Financing Activities:

The stormwater, sanitary sewer and water funds received \$206,994, \$226,000 and \$196,989, respectively, in assets from developers. These amounts are included in capital contributions.

See accompanying notes to the general purpose financial statements



**CITY OF UNION, OHIO**  
**COMBINED STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN FUND EQUITY - BUDGET AND ACTUAL (BUDGET BASIS)**  
**ALL ENTERPRISE FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**

	Enterprise Funds		
	Revised Budget	Actual	Variance Favorable/ (Unfavorable)
Revenues:			
Charges for Services	\$ 1,146,600	1,016,652	(129,948)
Tap in Fees	64,000	137,800	73,800
Interest	5,650	6,183	533
Special Assessments	-	5,981	5,981
Proceeds from the Sale of Notes	319,700	508,000	188,300
Miscellaneous	8,500	24,978	16,478
<b>Total Revenues</b>	<b>1,544,450</b>	<b>1,699,594</b>	<b>155,144</b>
Expenses:			
Personal Services	497,179	479,737	17,442
Other Expenses:			
Contractual Services	331,381	298,578	32,803
Supplies and Materials	98,350	78,783	19,567
Capital Outlay	613,992	279,919	334,073
Debt Service:			
Principal Retirement	481,315	455,402	25,913
Interest and Fiscal Charges	14,733	14,733	-
<b>Total Expenses</b>	<b>2,036,950</b>	<b>1,607,152</b>	<b>429,798</b>
Excess of Revenues Over(Under) Expenses	(492,500)	92,442	584,942
Fund Balance at Beginning of Year	612,006	612,006	-
Fund Balance at End of Year	<u>\$ 119,506</u>	<u>\$ 704,448</u>	<u>\$ 584,942</u>

See accompanying notes to the general purpose financial statements

**CITY OF UNION, OHIO**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**

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NOTE 1- REPORTING ENTITY AND BASIS OF PRESENTATION

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, fire and rescue, parks and recreation, planning, zoning, street maintenance and repair, community development, public health and welfare, water, sewer, storm 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.

Basis of Presentation - Fund Accounting

The City uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain City functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the fund because they do not directly affect net expendable available financial resources.

For financial statement presentation purposes, the various funds of the City are grouped into the following fund types under the fund categories governmental, proprietary and fiduciary.

**CITY OF UNION, OHIO**  
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

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NOTE 1- REPORTING ENTITY AND BASIS OF PRESENTATION (continued)

Governmental Fund Types

Governmental funds are those through which most governmental functions typically are financed. The acquisition, use and balances of the City's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following are the City's governmental fund types:

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.

Special Revenue Funds - These funds are established to account for the proceeds of specific revenue sources (other than amounts relating to expendable trusts or major capital projects) that are legally restricted to expenditures for specific purposes.

Capital Projects Funds - These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

Proprietary Fund Type

The proprietary funds are used to account for the City's ongoing activities that are similar to those found in the private sector. The following are the City's proprietary fund types:

Enterprise Funds - These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that costs (expenses, including depreciation) of providing services to the general public on a continuing basis be recovered or financed primarily through user charges or where it has been decided that a periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Fiduciary Funds

Fiduciary funds are used to account for assets the City holds in a trustee capacity or as an agent for individuals, private organizations, other governments and other funds. The City's fiduciary funds include an expendable trust fund. Expendable trust funds are accounted for in essentially the same manner as governmental funds.

Account Groups

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

**CITY OF UNION, OHIO**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**

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NOTE 1- REPORTING ENTITY AND BASIS OF PRESENTATION (continued)

General Fixed Assets Account Group - This account group is used to account for all general fixed assets of the City other than those accounted for in proprietary or trust funds.

General Long-Term Obligations Account Group - This account group is used to account for all unmatured general long-term indebtedness of the City that is not a specific liability of the proprietary funds or trust funds, including special assessment debt for which the City is obligated in some manner.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to generally accepted accounting principles for local governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board and other recognized authoritative sources.

Measurement Focus And Basis of Accounting

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to the time when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

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.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, includes property tax, grants, entitlements and donations. On an accrual basis, 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.

**CITY OF UNION, OHIO**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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: investment earnings, state-levied locally shared taxes (including gasoline tax), intergovernmental grants, fines, and licenses and permits.

The City reports deferred revenues in its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. In the subsequent period, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Current and delinquent property taxes measurable as of December 31, 2003, whose availability is indeterminate and which are not intended to finance current period obligations, have been recorded as a receivable and deferred revenue. Levied special assessments are measurable, and have been recorded as a receivable. Since all assessments are due outside the available period, the entire amount has been deferred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year. The cost of accumulated unpaid vacation and sick leave are reported as fund liabilities in the period in which they will be liquidated with available financial resources rather than in the period earned by employees. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

The accrual basis of accounting is utilized for reporting purposes by the proprietary funds. Revenues are recognized when they are earned and become measurable, and expenses are recognized when incurred if measurable. Unbilled service charges receivable are recognized as revenue at year end.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the City applies all applicable Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to

**CITY OF UNION, OHIO**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

be budgeted and appropriated. The primary level of budgetary control is at the function level within each department. Budgetary modifications may only be made by resolution of the City Council.

Tax Budget

A tax budget of estimated revenues and expenditures for all budgeted funds is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

Estimated Resources

The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and revises estimated revenues. The commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation ordinance. On or about January 1, the certificate of estimated resources is amended to include unencumbered fund balances at December 31 of the preceding year. The certificate may be further amended during the year if the fiscal officer determines that the revenue collected is greater or less than the current estimates. The amounts reported on the budgetary statements reflect the amounts in the final amended official certificate of estimated resources issued during 2003.

Appropriations

A temporary appropriation measure to control expenditures may be passed on or about January 1 of each year for the period from January 1 to March 31. The annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance generally controls the spending authority at the fund, department and object level. The appropriation ordinance may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The allocation of appropriations among departments and objects within a fund may be modified during the year only by an ordinance of Council. During the year supplemental appropriation measures were legally passed. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications.

Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditures of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. The Ohio Revised Code prohibits expenditures plus

**CITY OF UNION, OHIO**  
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

encumbrances from exceeding appropriations. On the GAAP basis, encumbrances outstanding at year-end are reported as reservations of fund balances for subsequent-year expenditure for governmental funds and reported in the notes to the financial statements for proprietary funds.

Lapsing of Appropriations

All encumbrances lapse at the close of each year and must be re-appropriated. At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations.

Cash and Cash Equivalents

Cash balances of the City's funds, except cash held by 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" on the combined balance sheet.

The City invested funds in the State Treasury Assets Reserves of Ohio (STAR Ohio) during fiscal year 2003. 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, 2003.

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 2003 amounted to \$13,181.

Supplies Inventory

Inventories of governmental funds are stated 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. The costs of inventory items are recorded as expenditures in the governmental fund types when purchased and as expenses in the proprietary fund types when used. 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.

**CITY OF UNION, OHIO**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed Assets and Depreciation

The fixed asset values were initially determined at December 31, 1993 assigning original acquisition costs when such information was available. In cases where information supporting original costs was not available, estimated historical costs were developed. For certain fixed assets, the estimates were determined by indexing estimated current costs back to the estimated year of acquisition. Donated fixed assets are capitalized at fair value on the date donated.

General Fixed Assets

General fixed assets (fixed assets used in governmental fund type operations) are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. Assets in the general fixed assets account group are not depreciated. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements which extend the useful life or increase the capacity or operating efficiency are capitalized at cost in the general fixed assets account group.

Public domain (infrastructure) general fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems are not capitalized or reported, as these assets are immovable and of value only to the government.

Proprietary Fund Fixed Assets

Fixed assets associated with the enterprise funds are accounted for in those funds. Depreciation is calculated using the straight-line method over the assets estimated useful life. The assets of the enterprise funds are depreciated on the following basis:

Buildings	45 years
Land Improvements	45 years
Equipment	6 - 15 years
Vehicles	6 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.



**CITY OF UNION, OHIO**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

For governmental funds, the City records a liability for accumulated, unpaid vacation and sick leave for eligible employees in the period in which the employee becomes eligible to receive payment. The current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. This amount is recorded as a fund liability, while the balance of the liability is recorded in the general long-term obligations account group.

In proprietary funds, compensated absences are expensed when earned. The entire amount of unpaid compensated absences is reported as a fund liability.

Contributed Capital

Contributed capital represents resources from other funds, federal and state grants, other governments, and private sources provided to the City's proprietary funds which are not subject to repayment.

Because the City, prior to 1993, had not prepared its financial statements in accordance with generally accepted accounting principles, the exact amount of contributed capital pertaining to years prior to 1993 cannot be determined. Only those amounts that could be specifically identified have been classified as contributed capital in the accompanying general purpose financial statements.

Reservations and Designation of Fund Equity

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.

Intergovernmental Revenues

In governmental funds, grants awarded on a non-reimbursement basis, shared revenues, and entitlements are recorded as intergovernmental receivables and revenues when measurable and available. Reimbursable grants are recorded as intergovernmental receivables and revenues when the related expenditures are made.

Grants received for proprietary fund operations are recognized as revenues when measurable and earned. Such resources restricted for the construction of capital assets are recorded as contributed capital.

**CITY OF UNION, OHIO**  
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2003

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transaction and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. The residual equity transfers represent a one time transfer of start up money.

Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations are reported in the general long-term obligations account group. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

Long-term liabilities are being repaid from the following funds:

<u>Obligation</u>	<u>Fund</u>
Intergovernmental Payable	Police Pension Fund
Capital Lease Obligation	Street Fund, Street Levy Fund, State Highway Fund, Storm Water Fund, Sewer Fund and Water Fund
Compensated Absences	Will be paid by the fund from which the employees' salary is paid
General Obligation Bonds Payable	Sewer fund, Water fund, Storm Water fund, Street fund, and Street Levy fund.

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.

Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or cash flows in conformity with generally accepted accounting principles nor is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**CITY OF UNION, OHIO**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**

**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, appropriations and encumbrances. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations.

The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances, Budget and Actual (Budget Basis), All Governmental Fund Types and the Combined Statement of Revenues, Expenses and Changes in Fund Equity - Budget and Actual (Budget Basis), All Proprietary Fund Types are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

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  
 Governmental Fund Types and Expendable Trust Fund

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>
GAAP Basis	\$ 22,330	\$ 172,501	\$ (129,859)	\$ 12,881
Revenue Accruals	(20,840)	(54,023)	(18,401)	(2,127)
Expenditure Accruals	27,044	27,203	43,778	-
Principal Payments	(313,249)	(26,549)	(197,301)	-
Note Proceeds	295,800	-	132,600	-
Transfers	<u>(36,226)</u>	<u>(154,718)</u>	<u>146,310</u>	<u>-</u>
Budget Basis	\$ <u>(25,141)</u>	\$ <u>(35,586)</u>	\$ <u>(22,873)</u>	\$ <u>10,754</u>

**CITY OF UNION, OHIO**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**

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Net Loss/Excess of Revenues Over  
(Under) Expenses and Operating Transfers  
Proprietary Fund Types

	Enterprise
GAAP Basis	\$ (46,041)
Revenue Accruals	11,550
Expense Accruals	(22,818)
Acquisition of Capital Assets	(222,467)
Depreciation	326,840
Principal Payments	(455,402)
Note Proceeds	508,000
Net Transfers	(7,220)
Budget Basis	\$ 92,442

**NOTE 4 - DEPOSITS AND INVESTMENTS**

Monies of substantially all funds of the City are maintained or invested in a common group of bank accounts and in short-term investments. This is done in order to maximize the rate of interest that can be earned on invested funds. Interest income is distributed to the funds according to charter and statutory requirements.

The investment and deposit of City monies are governed by the provisions of the Charter and Codified Ordinances of the City and the Ohio Revised Code. In accordance with these provisions, only financial institutions located in Ohio and primary security dealers are eligible to hold public deposits. The provisions also permit the City to invest its monies in certificates of deposit, savings accounts, money market accounts, the State Treasurer's investment pool (STAR Ohio) and obligations of the United States government or certain agencies thereof. The City may also enter into repurchase agreements with any eligible depository for a period not exceeding five years.

Public depositories must give security for all public funds on deposit. According to the City's Deposit and Investment Policy, these institutions may either specifically collateralize individual accounts in lieu of amounts insured by the Federal Deposit Insurance Corporation (FDIC) or may pledge a pool of government securities the face value of which is at least 105 percent of the total value of public monies on deposit at the institution.

**Deposits**

At year end, the carrying amount of the City's deposits were \$9,729 and the related bank balance was \$105,117. Of the bank balance, \$100,000 was covered by federal deposit insurance and the remaining amounts were uninsured and uncollateralized as defined by GASB Statement No. 3 because the securities held as collateral by the financial institutions or their trust departments or agents were held in an investments and securities pool but not in the financial institution's name. As authorized by state statute, the pledging bank has established an investment and securities pool to collateralize all public deposits.

**CITY OF UNION, OHIO**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**

NOTE 4 - DEPOSITS AND INVESTMENTS (continued)

Investments

GASB Statement No. 3 "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" requires that the City's investments be classified in categories of risk. Category 1 includes investments that are insured or registered or for which the securities are held by the City. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department but not in the City's name. The investment with the Ohio State Treasurer is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. As a result, the City has no investments that meet the definition of category 1, 2 or 3 as defined in GASB No. 3.

At December 31, 2003, the carrying value of the STAR Ohio was \$1,219,558.

The classification of cash and cash equivalents, and investments on the financial statements is based on criteria set forth in GASB Statement No. 9. Cash equivalents are defined to include investments with original maturities of three months or less.

A reconciliation between classifications of cash and investments on the financial statements and the classifications per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents	Investments
GASB Statement 9	\$ 1,229,287	\$ -
Investments:		
STAR Ohio	(1,219,558)	1,219,558
GASB Statement 3	\$ 9,729	\$ 1,219,558

NOTE 5 - 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

**CITY OF UNION, OHIO**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**

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NOTE 5 - PROPERTY TAXES (continued)

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, 2003, 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 2003 property tax receipts were based are as follows:

Real property:	
Residential/agricultural	\$ 75,187,170
Commercial/industrial	2,985,090
Tangible personal property:	
Public utilities	1,438,830
General	<u>2,605,879</u>
Total valuation	\$ <u>82,216,969</u>

Property taxes receivable represent real and tangible personal property taxes, public utility taxes and outstanding delinquencies that are measurable as of December 31, 2003. 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 2003 operations. The receivable is therefore offset by a credit to deferred revenue.

NOTE 6 - RECEIVABLES

Receivables at December 31, 2003, 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, 2003 was \$77,020.

**CITY OF UNION, OHIO**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**

**NOTE 6 - RECEIVABLES** (continued)

A summary of intergovernmental receivables follows:

	Amounts
General Fund	\$ <u>11,755</u>
Special Revenue Funds	
State Highway	1,103
Street Maintenance and Repair	<u>16,694</u>
Total Special Revenue Funds	<u>17,797</u>
Total Intergovernmental Receivable	\$ <u>29,552</u>

**NOTE 7 - FIXED ASSETS**

A summary of the changes in the general fixed assets during the year ended December 31, 2003 follows:

	Balance at January 1, 2003	Additions	Deletions	Balance at December 31, 2003
Land	\$ 561,586	\$ -	\$ -	\$ 561,586
Buildings	932,536	1,080	-	933,616
Equipment	1,518,553	90,969	-	1,609,522
Vehicles	<u>137,385</u>	<u>-</u>	<u>-</u>	<u>137,385</u>
Total	\$ <u>3,150,060</u>	\$ <u>92,049</u>	\$ <u>-</u>	\$ <u>3,242,109</u>

A summary of changes in the enterprise funds' fixed assets at December 31, 2003 follows:

	Balance at January 1, 2003	Additions	Deletions	Balance at December 31, 2003
Buildings	\$ 2,954,336	\$ 3,109	\$ -	\$ 2,957,445
Equipment	743,216	39,033	-	782,249
Infrastructure	<u>8,882,536</u>	<u>810,308</u>	<u>-</u>	<u>9,692,844</u>
Total	12,580,088	852,450	-	13,432,538
Accumulated Depreciation	<u>(4,532,552)</u>	<u>(326,840)</u>	<u>-</u>	<u>(4,859,392)</u>
Total	\$ <u>8,047,536</u>	\$ <u>525,610</u>	\$ <u>-</u>	\$ <u>8,573,146</u>

**NOTE 8 - 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 or the Ohio Public Employees Retirement System. Both funds provide retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members

**CITY OF UNION, OHIO**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**

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NOTE 8 - DEFINED BENEFIT PENSION PLANS (continued)

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.

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) 466-2085 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2003, member and employer contribution rates were consistent across all three plans (TP, MD, and CO). The 2003 member contribution rates were 8.5% of their annual covered salary. The 2003 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, 2003, 2002, and 2001 were \$126,745, \$122,737, and \$107,751, 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 2003 was \$30,415 with \$17,183 recorded in the general long-term debt account group and the remaining \$13,232 recorded in the respective enterprise funds.

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, or by calling (614) 228-2975.



**CITY OF UNION, OHIO**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**

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NOTE 8 - DEFINED BENEFIT PENSION PLANS (continued)

Plan members are required to contribute 10.0% of their annual covered salary, while employers are required to contribute 19.5% and 24%, respectively for police officers and firefighters. The City contributions to the plan for the years ended December 31, 2003, 2002, and 2001 were \$57,213, \$56,972 and \$54,069. The City's contributions include a full pick-up on the police chief. The unpaid contribution for 2003 was \$10,764 and is recorded as a long-term liability in the general long-term debt account group.

NOTE 9 - 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 2003 employer contribution rate was 13.55% ; 5% was the portion that was used to fund health care for the year. The portion of the City's contributions for 2003 used to fund post-employment benefits was \$46,769.

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 System's latest Actuarial Review performed as of December 31, 2002

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 2002 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 4.00% annually.

**CITY OF UNION, OHIO**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**

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NOTE 9 - POSTEMPLOYMENT BENEFITS (continued)

OPEBs are advance-funded on an actuarially determined basis. At December 31, 2003, the number of active contributing participants in the Traditional and Combined Plans totaled 364,881. \$10.0 billion represents the actuarial value of the Retirement System's net assets available for OPEB at December 31, 2002. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$18.7 billion and \$8.7 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of health care. The Choices Plan will be offered to all persons newly hired in an OPERS covered position after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The plan will also offer a spending account feature, enabling the benefit recipient to apply his or her allowance toward specific medical expenses, much like a Medical Spending Account.

In response to the adverse investment returns experienced by OPERS from 2000 through 2002 and the continued staggering rate of health care inflation, the OPERS Board, during 2003, considered extending "Choices" type cost cutting measures to all active members and benefit recipients. As of this date, the Board has not determined the exact changes that will be made to the health care plan. However, changes to the plan are expected to be approved by the summer of 2004.

Police and Fire Pension Fund

The Ohio Police and Fire Pension Fund 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% 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 2002 and 2003. 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, 2002, the date of the last actuarial valuation available, was 13,527 for police and 10,396 for firefighters. The City's portion of current year contributions to fund post retirement benefits was \$22,714. The fund's total health care

**CITY OF UNION, OHIO**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**

NOTE 9 - POSTEMPLOYMENT BENEFITS (continued)

expenses for the year ending December 31, 2002 (the latest information available) was \$141,028,006, which was net of member contributions of \$12,623,875.

NOTE 10 - 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 \$49,273 at December 31, 2003.

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, 2003 was \$58,650.

NOTE 11 - 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 2003 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.

**CITY OF UNION, OHIO**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**

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NOTE 11 - RISK MANAGEMENT (continued)

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.

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 2003, the City made no contribution to the savings account and the account has a balance of \$108,452. 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 12 - CAPITALIZED LEASES

The City entered into a lease agreement in 1999 for a VacCon Sewer Cleaner and in 2001 for a Kut Kwick Mower. The leases meet the criteria of capital leases as defined by statement of financial accounting standards No. 13 "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee.

Capital lease payments have been reclassified and are reflected as debt service in the Combined Financial Statements for the Enterprise Fund Type. These expenditures are reflected as contractual service expenses on a budgetary basis. The assets have been capitalized as equipment in the Sewer Fund for \$186,117. The city has borrowed \$150,000 and \$27,717 as a lease purchase and a liability has been recorded in the sewer fund. Principal payments in 2003 for The VacCon and Kut Kwick were \$31,737.

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, 2003.

<u>Year end</u>	<u>Capital Lease Obligation</u>
2004	\$ 35,233
2005	6,356
2006	<u>6,355</u>
Total Minimum Lease Payments	49,944
Less: Amount Representing Interest	<u>(2,905)</u>
Present Value of Minimum Lease Payments	<u>\$ 45,039</u>

**CITY OF UNION, OHIO**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**

**NOTE 13 - SHORT-TERM OBLIGATIONS**

A summary of the short-term note transactions for the year ended December 31, 2003 follows:

	<u>Balance</u> <u>January 1, 2003</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>December 31, 2003</u>
<b><u>General Fund</u></b>				
Martindale Rd, 1.83%	\$ 50,200	\$ 41,100	\$ 50,200	\$ 41,100
City Building, 1.83%	<u>92,400</u>	<u>84,051</u>	<u>92,400</u>	<u>84,051</u>
Total General Fund	\$ <u>142,600</u>	\$ <u>125,151</u>	\$ <u>142,600</u>	\$ <u>125,151</u>
<b><u>Special Revenue Fund</u></b>				
City Building, 1.83%	\$ 92,400	\$ 84,051	\$ 92,400	\$ 84,051
St. Rt. 48, 1.83%	<u>144,000</u>	-	<u>144,000</u>	-
Total Special Revenue	\$ <u>236,400</u>	\$ <u>84,051</u>	\$ <u>236,400</u>	\$ <u>84,051</u>
<b><u>Capital Projects Fund</u></b>				
St. Rt. 48, 1.47%	\$ -	\$ 132,600	\$ -	\$ 132,600
<b><u>Enterprise Fund</u></b>				
Phillipsburg – Union Utility, 1.65%	\$ 46,700	\$ -	\$ 46,700	\$ -
Water Line, 1.83%	141,600	124,000	141,600	124,000
City Building, 1.83%	95,200	86,598	95,200	86,598
Water System Well	<u>-</u>	<u>384,000</u>	<u>200,000</u>	<u>184,000</u>
Total Enterprise Fund	\$ <u>283,500</u>	\$ <u>594,598</u>	\$ <u>483,500</u>	\$ <u>394,598</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 GENERAL PURPOSE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**

NOTE 14 - LONG-TERM OBLIGATIONS

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

	Balance <u>January 1, 2003</u>	Increase	Decrease	Balance <u>December 31, 2003</u>
<u>General Long-Term Obligation</u>				
Compensated absences	\$ 64,821	\$ -	\$ 12,732	\$ 52,089
Intergovernmental payable	27,986	27,947	27,986	27,947
Various purpose general obligation bonds	<u>198,360</u>	<u>-</u>	<u>71,500</u>	<u>126,860</u>
Total general long-term obligations	\$ <u>291,167</u>	\$ <u>27,947</u>	\$ <u>112,218</u>	\$ <u>206,896</u>
	Balance <u>January 1, 2003</u>	Increase	Decrease	Balance <u>December 31, 2003</u>
<u>Enterprise Funds</u>				
Various purpose general obligation bonds	\$ 211,640	\$ -	\$ 58,500	\$ 153,140
Capital lease obligation	<u>76,776</u>	<u>-</u>	<u>31,737</u>	<u>45,039</u>
Total Enterprise Fund type	\$ <u>288,416</u>	<u>-</u>	\$ <u>90,237</u>	\$ <u>198,179</u>

As of December 31, 2003, the City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$7,598,782. Principal and interest requirement to retire long-term obligations outstanding at December 31, 2003 are as follows:

Year ending:	<u>General Obligation Bond</u>	<u>Enterprise General Obligation Bond</u>
2004	\$ 68,088	\$ 83,220
2005	<u>66,170</u>	<u>80,875</u>
Total Principal and Interest	134,258	164,095
Less Interest	<u>(7,398)</u>	<u>(10,955)</u>
Total Principal Outstanding	\$ <u>126,860</u>	\$ <u>153,140</u>

**CITY OF UNION, OHIO**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**

**NOTE 15 - SEGMENT INFORMATION**

The City's enterprise funds account for the provision of pool, sewer, water and storm water services. Key financial information for the year ended December 31, 2003, for each enterprise fund is as follows:

	Pool	Storm Water	Sanitary Sewer	Water	Total
Operating Revenues	-	86,755	624,790	456,335	1,167,880
Operating Expenses before Depreciation Expense	618	50,178	483,583	353,028	887,407
Depreciation Expense	-	53,125	143,405	130,310	326,840
Operating Income (Loss)	(618)	(16,548)	(2,198)	(27,003)	(46,367)
Special Assessment	-	-	-	5,981	5,981
Interest Income	80	393	2,894	2,816	6,183
Interest and Fiscal Charges	-	(1,221)	(7,853)	(9,984)	(19,058)
Operating Transfers In (Out)	-	(16,031)	16,751	6,500	7,220
Net Income (Loss)	(538)	(33,407)	9,594	(21,690)	(46,041)
Current Contributed Capital	-	206,994	226,000	196,989	629,983
Additions to Property, Plant and Equipment	-	10,783	12,602	199,082	222,467
Net Working Capital	10,691	48,420	364,170	327,333	750,614
Total Assets	10,736	1,653,250	4,015,283	3,684,399	9,363,668
Other Long-term Liabilities	-	3,902	202,826	441,883	648,611
Total Equity	10,691	1,645,263	3,791,885	3,227,310	8,675,149

During 2003, contributed capital increased by the following amounts:

	Storm Water	Sanitary Sewer	Water	Total
Contributed capital at January 1, 2003	\$ 1,325,017	\$ 2,058,781	\$ 1,703,562	\$ 5,087,360
Capital Contributed by Developers	206,994	226,000	196,989	629,983
Less: Depreciation	<u>(46,134)</u>	<u>(66,822)</u>	<u>(54,705)</u>	<u>(167,661)</u>
Contributed capital at December 31, 2003	<u>\$ 1,485,877</u>	<u>\$ 2,217,959</u>	<u>\$ 1,845,846</u>	<u>\$ 5,549,682</u>

**CITY OF UNION, OHIO**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**

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NOTE 16 - FEDERAL AND STATE GRANTS

For the period January 1, 2003 to December 31, 2003 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 has deficit fund equity of \$100,835 due to a note being classified as short-term within the fund. The note is being rolled over each year with a portion of principal paid.

NOTE 18 – SUBSEQUENT EVENT

The City placed two issues on the August 2004 ballot, a 8.33 mill replacement operating levy for police operations and a 2.5 mill additional operating levy for fire and EMS protection services. The voters defeated both of these levies. If the levies would have passed, \$235,000 and \$209,000 in additional operating funds would have been generated for the police and fire departments respectively. The 2004 budget will sustain the departments through the end of the year. However, to avoid potential budget deficits, the City has cut overtime within the police department effective August 9, 2004. Should the levies be defeated again when they are placed on the ballot, the City will cut operating expenses to match revenues, including the elimination of part-time police officers hours and in-station standby personnel hours for the fire department. The City will also reduce the medic response crew from a three person status to two persons.





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

Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting  
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 City of Union, Ohio (the City), as of and for the year ended December 31, 2003 and have issued our report thereon dated September 3, 2004. 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.

Compliance

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 grants, 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 that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance that we have reported to management of the City in a separate letter dated September 3, 2004.

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 opinion on the financial statements and not to provide assurance on the internal control over financial reporting. 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 material weaknesses. A material weakness is a 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 in amounts that would be material in relation to the financial statement being audited may occur and not be detected with in a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the City in a separate letter dated September 3, 2004.

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

*Clark, Schaefer, Hachett & Co.*

Springfield, Ohio  
September 3, 2004



**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**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  
DECEMBER 7, 2004**