

**CITY OF UNION
UNION COUNTY, OREGON
AUDIT REPORT**

For the Fiscal Year Ended June 30, 2009

CITY OF UNION
ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2009

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CITY OF UNION
CITY HALL
342 South Main
Union, Oregon 97883

ELECTED MAYOR AND CITY COUNCIL AT JUNE 30, 2009

Name

Term Expires

Mayor:

William Lindsley
1317 S Third Street

December 31, 2010

Council Members:

Betty Bronson
681 E. Ash Street

December 31, 2013

Pat Lang
1091 S. Main Street

December 31, 2011

Dick Walker
431 E. Delta Street

December 31, 2012

Doug Osburn
222 E Chestnut Street

December 31, 2012

Jeanne Johnson
218 S Third Street

December 31, 2011

Sue Briggs
367 W. Center

December 31, 2011

APPOINTED CITY OFFICERS AS OF JUNE 30, 2009

City Administrator:

Sandra Patterson

City Attorney:

Doug Hojem

Municipal Judge:

Richard Dall

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Financial Section

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Guyer & Associates

Certified Public Accountants
A Professional Corporation

Randell C. Guyer, Jr.
Kent J. Bailey
Robert M. Burgess
Megan R. Adams

David F. Lindley
Scott A. Martin
Robert P. Seymour
Robert C. Gaslin

December 3, 2009

The Honorable Mayor William Lindsley
and the Members of the City Council
City of Union, Oregon

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Union, Oregon as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Union's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

We have been unable to satisfy ourselves concerning a substantial portion of the cost or estimated cost of fixed assets and accompanying accumulated depreciation and depreciation expense reported in the Government-wide and Proprietary Fund statements because of the inadequacy of the City's fixed asset records.

As discussed in Note 1, the City of Union, Oregon prepares its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the correctness of the fixed asset records, the financial statements referred to above present fairly, in all material respects, the respective financial position—modified cash basis of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Union, Oregon as of June 30, 2009 and the respective changes in financial position—modified cash basis and cash flows—modified cash basis, where applicable thereof for the year then ended in conformity with the basis of accounting described in Note 1.

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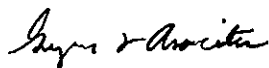
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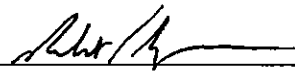
In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2009, on our consideration of the City of Union's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Managements discussion and analysis on pages 6 through 14 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of management's discussion and analysis. However, we did not audit this information and express no opinion on it. The other required supplementary information on pages 44-48 has been subjected to auditing procedures applied in the audit of the basic financial statements and in our opinion, is fairly stated in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Union's basic financial statements. The introductory section, combining nonmajor fund financial statements, schedules of revenues, expenditures or expenses, and changes in fund balance—budget and actual, and other supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements, schedules of revenues, expenditures or expenses, and changes in fund balance—budget and actual, and other supplementary schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole on the basis of accounting described in Note 1. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.



Guyer & Associates
Certified Public Accountants
A Professional Corporation

By 
Robert P. Seymour, a principal

CITY OF UNION, OREGON
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2009

Our discussion and analysis of the City of Union's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2009, within the limitations of the City's modified cash basis of accounting. Please read it in conjunction with the City's financial statements that begin on page 16.

FINANCIAL HIGHLIGHTS

The City's total expenses exceeded total revenues, on the modified cash basis of accounting, by \$184,208 for the year.

The City's General Fund ended the year with a fund balance of \$78,081.

USING THIS ANNUAL REPORT

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the City's modified cash basis of accounting.

Report Components

This annual report consists of five parts as follows:

Government-Wide Financial Statements: The Statement of Net Assets and the Statement of Activities (*on pages 16-17*) provide information about the activities of the City government-wide (or "as a whole") and present a longer-term view of the City's finances.

Fund Financial Statements: Fund financial statements (*starting on page 18*) focus on the individual parts of the City government. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant ("major") funds. For *government activities*, these statements tell how these services were financed in the short term as well as what remains for future spending. For *proprietary activities*, these statements offer short-term and long-term financial information about the activities the City operates like businesses, such as the water, sewer, and sanitation services.

Notes to the Financial Statements: The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Required Supplementary Information: This Management's Discussion and Analysis and the Budgetary Comparison Schedules for the General Fund, State Tax Street Fund and the Emergency Services Fund (*starting on page 44*) represent financial information required by GASB to be presented. Such information provides users of this report with additional data that supplements the government-wide statements, fund financial statements, and notes (referred to as "the basic financial statements").

CITY OF UNION, OREGON
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
June 30, 2009

Other Supplementary Information: this part of the annual report (*starting on page 50*) includes optional financial information such as combining statements for nonmajor funds (which are added together and shown in the fund financial statements in a single column). This other supplemental financial information is provided to address certain specific needs of various users of the City's annual report.

Basis of Accounting

The City has elected to present its financial statements on a modified cash basis of accounting. This modified cash basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to *when* financial events are recorded, such as the timing for recognizing revenues, expenses, and their related assets and liabilities. Under the City's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from cash transactions, except for the recording of depreciation expense on capital assets in the government-wide financial statements for all activities and in the fund financial statements for proprietary fund activities.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) *are not recorded* in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of modified cash basis of accounting. During the fiscal year the City changed the date payroll is paid from the last day of the month to the 5th of the following month. This resulted in only 11 months of employee wages being recorded in the fiscal year on the modified cash basis of accounting.

Reporting the City as a Whole

The City's Reporting Entity Presentation

This annual report includes all activities for which the City of Union City Council is fiscally responsible. These activities, defined as the City's reporting entity, are operated within a single legal entity that makes up the primary government.

The Government-Wide Statement of Net Assets and the Statement of Activities

Our financial analysis of the City as a whole begins on page 11. The government-wide financial statements are presented on pages 16 and 17. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all of the City's assets and liabilities resulting from the use of the modified cash basis of accounting.

These two statements report the City's net assets and changes in them. Keeping in mind the limitations of the modified cash basis of accounting, you can think of the City's net assets—the difference between assets and liabilities—as one way to measure the City's financial health or financial position.

CITY OF UNION, OREGON
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
June 30, 2009

Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the City's property tax base and the condition of the City's streets, to assess the overall health of the City.

In the Statement of Net Assets and Statement of Activities, we divide the City into two kinds of activities:

Governmental activities. Most of the City's basic services are reported here, including the general administration, streets, parks, pool, fire, and ambulance. Property taxes, fines, franchise fees and state and federal grants finance most of these activities.

Business-type activities. The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water and sewer departments are reported here.

Reporting the City's most Significant Funds

The Fund Financial Statements

Our analysis of the City's major funds begins on page 13. The fund financial statements begin on page 18 and provide detailed information about the most significant funds— not the City as a whole. Some funds are required to be established by State law. However, the City Council establishes certain other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money. The City's two kinds of funds—*governmental and proprietary*—use different accounting approaches.

Governmental funds—Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds report the acquisition of capital assets and payments for debt principal as expenditures and not as changes to asset and debt balances. The governmental fund statements provide a short-term view of the City's general governmental operations and the basic services it provides. Governmental fund information helps you determine (through a review a changes to fund balance) whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation at the bottom of the fund financial statements. The City considers the General Fund, the Special Street Fund and the Emergency Services Fund to be its significant or major governmental funds. All other governmental funds are aggregated in a single column entitled nonmajor funds.

Proprietary funds—When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. For example, proprietary fund capital assets are capitalized and depreciated and principal payments on long-term debt are recorded as a reduction to the liability. In fact, the City's proprietary (enterprise) fund financial statements are essentially the same as the business-type activities we report in the government-wide statements but the fund statements provide more detail and additional information, such as cash flows. At the end of this year the City only has only one enterprise fund—the Water/Sewer Utility Fund.

CITY OF UNION, OREGON
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
June 30, 2009

Fiduciary funds are often used to account for assets that are held in a trustee or fiduciary capacity such as pension plan assets, assets held per trust agreements, and similar arrangements. The City currently has no fiduciary funds.

A FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Assets—Modified Cash Basis

The City's combined net assets, resulting from modified cash basis transactions, were approximately \$4.6 million in fiscal year 2009. The table below is a comparison of ending net assets for the years ending June 30, 2009 and 2008 respectively.

	Governmental Activities		Business-Type Activities		Totals	
	2008-2009	2007-2008	2008-2009	2007-2008	2008-2009	2007-2008
Current Assets	\$ 322,532	\$ 276,164	\$ 913,993	\$ 788,903	\$ 1,236,525	\$ 1,065,067
Capital Assets	719,513	766,034	5,221,535	5,436,170	5,941,048	6,202,204
Total Assets	1,042,045	1,042,198	6,135,528	6,225,073	7,177,573	7,267,271
Long-term debt outstanding	0	0	2,543,802	2,632,059	2,543,802	2,632,059
Other liabilities	1,255	0	21,462	20,716	22,717	20,716
Total Liabilities	1,255	0	2,565,264	2,652,775	2,566,519	2,652,775
Net Assets:						
Invested in capital assets, net of related debt	719,513	766,034	2,677,734	2,804,111	3,397,247	3,570,145
Restricted and Reserved	94,971	38,903	144,169	113,343	239,140	152,246
Unrestricted, Unreserved	226,306	237,261	748,361	655,844	974,667	893,105
Total Net Assets	\$ 1,040,790	\$ 1,042,198	\$ 3,570,264	\$ 3,573,298	\$ 4,611,054	\$ 4,615,496

Net assets of the City's government activities as of June 30, 2009 are \$1.041 million consistent with \$1.042 million the previous year. However, \$0.81 million and \$0.80 million of those net assets at June 30, 2009 and 2008 respectively are either restricted as to the purposes they can be used for or are invested in capital assets (buildings, roads, etc.). Consequently, unrestricted net assets shown are \$0.22 million at June 30, 2009, down \$0.01 million the previous year.

CITY OF UNION, OREGON
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
June 30, 2009

Changes in Net Assets—Modified Cash Basis

For the years ended June 30, 2009 and 2008, changes in net assets of the primary government (resulting from modified cash basis transactions) were as follows:

	Governmental Activities		Business-Type Activities		Totals	
	2008-2009	2007-2008	2008-2009	2007-2008	2008-2009	2007-2008
Revenues	\$ 482,805	\$ 491,518	\$ 808,738	\$ 875,873	\$ 1,291,543	\$ 1,367,391
Expenses	517,439	413,931	778,547	769,252	1,295,986	1,183,183
Excess(deficiency) before transfers	(34,634)	77,587	30,191	106,621	(4,443)	184,208
Transfers	33,226	(864)	(33,226)	864	-	-
Change in net assets before residual equity transfers	\$ (1,408)	\$ 76,723	\$ (3,035)	\$ 107,485	\$ (4,443)	\$ 184,208
Residual equity transfer	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Change in net assets	\$ (1,408)	\$ 76,723	\$ (3,035)	\$ 107,485	\$ (4,443)	\$ 184,208

Governmental Activities

To aid in the understanding of the Statement of Activities, some additional explanation is given. Of particular interest is the format that is significantly different from a typical Statement of Revenues, Expenses and Changes in Fund Balance. You will notice that expenses are listed in the first column, with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. This type of format highlights the relative financial burden of each of the functions on the City's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants. All other governmental revenues are reported as general. It is important to note that all taxes are classified as general revenue.

For the year ended June 30, 2009, total expenses for governmental activities, resulting from modified cash basis transactions, amounted to \$517,439. Of these total expenses, taxpayers and other general revenues funded \$297,186 while those directly benefitting from the program funded \$114,693 from charges for services and \$105,561 from grants and other contributions.

Business-Type Activities

In reviewing the business-type activities' net revenue after operating expense resulting from modified cash basis transactions, there are certain activities that need to be examined more closely. The Water/Sewer service activity reported net expense of \$73,555. This means that the Water/Sewer function produced less revenues, than the cost to operate it. Property tax revenue of \$61,383 dedicated to water and sewer bond repayment as well as interest earnings and miscellaneous income made up for most of this deficit.

CITY OF UNION, OREGON
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
June 30, 2009

General Fund Budgetary Highlights

Over the course of the year, the City Council revised the General Fund budget at various times. The final adjusted budget, however, was consistent with the prior year budget.

For the year ended June 30, 2009, General Fund expenditures were \$70,026 under final appropriations, and actual resources available for expenditure were \$114,113 under the final budgeted amount.

General Fund Revenues:

Most revenues came in as projected or within \$1,000. The following are a few that you should be aware of. Franchise fees were lower than expected around \$5,000 less. The 911 Taxes were lower than the budgeted amount by around \$2,000. Transfer Station only brought in a little over \$3,000, it was expected to earn \$6,000. Municipal Court was much lower than expected, short by \$3,000.

General Fund Expenditures:

Administrative Department expenses came in lower than budgeted by almost \$13,000. Dismissal of the City Administrator in late February 2009, and by not filling the position until after the fiscal year was the culprit for the positive balance in this department. The Police Department came in under budget by almost \$8,000. The reason for this was animal control was never put in place; therefore there were no expenses. As for the Planning Department it was over spent by almost \$11,000.

Solid Waste Transfer Site Department expenses came in lower than budgeted with an expense of \$6,400, for the reason the site only operated one day a month. It is planned to operate every Saturday in the 2009-2010 year with the expectations of breaking even by the end of the fiscal year. Municipal Park Department came in under budget by just over \$4,000. While it is great the City stayed under budget, the park continues to be of high maintenance and in need of repairs.

There was an unexpected expense during the 2008-2009 year, which was expensed over several departments. Retirement for three part-time city employees was overlooked by previous management and needed to be paid at a total cost of just over \$10,000. The City has set up a plan to pay back 911 funds at a cost of \$7,500 a year for the next three years. Meanwhile all 911 revenue will be directly deposited into Union County's account.

There were no expenses from the Contingency line. Overall, total expenses in the General Fund were lower than budgeted by a little over \$11,000.

Capital Assets—Modified Cash Basis

At June 30, 2009, the City had \$5,941,048 invested in capital assets, net of depreciation, including fire and ambulance equipment, buildings, park and pool facilities, water lines and sewer lines.

Long-Term Debt—Modified Cash Basis

At June 30, 2009, the City had \$2,543,802 in long-term debt arising from modified cash basis transactions.

**CITY OF UNION, OREGON
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
June 30, 2009**

Economic Factors and Next Year's Budget and Rates

As we proceed through 2009-2010 fiscal year the City will continue to do as has done in previous years, and manage expenditures carefully. One added addition of importance will be revenue from funding opportunities, not only can we maximize funding through grant opportunities but also by means of not supplementing residents of Union other than what City Council has chosen to provide. For example, fees will be collected in a timely manner and residents in the wrong will be fined. City employees will make best use of their time and resources. In the meantime, employees will continue to keep the City expenditures at minimum and revenue at a maximum. Management will continue with various changes and modifications to City operations, which will reinforce the conservative fiscal policies adopted by the City.

We entered the fiscal year with several new policies to streamline employee spending, tracking of checks, documentation of transactions, City credit card tracking and organizing and filing of City documents. Meanwhile management will continue with the tightening of City policy and persist with creating policy as needed. City Employees have entered into their second year of the Collective Bargaining Agreement with the labor union. One year remains before going back to the bargaining table.

The 2009-2010 budget was proposed without a full-time Assistant City Administrator and Planner to ease funding in all departments. While a full-time Utility Clerk was budgeted, only a part-time Utility Clerk was hired, and the previous Utility Clerk was placed in the position of Office Manager to allow for additional responsibilities and duties. The new City Administrator appointed by Council in August of 2009 will continue to be responsible for overseeing the day-to-day activities and Land Use Planning for the City of Union.

GENERAL FUND

Within the General Fund, there have historically been 7 separate departments: Administration, Police, Library, Parks, Court, the Transfer Station, and Planning. Because of a limited tax base, the General Fund struggles with providing services on a heavily restricted budget. With the fiscal policy from the 2008-2009 year carried into the 2009-2010 year, it is anticipated that the City will not take on any large projects, and instead conserve resources for future use.

Within the Administration Department, costs will continue at a relatively stable rate. Although some changes have been made in the structure of the cost allocations within the funds and departments, the result should be similar to that of the previous year. As a result of the new Code Enforcement Officer position Municipal Court revenue is anticipated to be more than in the previous couple of years. The City will continue providing basic law enforcement services via a 3-year contract with the County Sheriff's Department, which began in February 2008. In conjunction, the Code Enforcement Officer will provide minimal animal control. Plans have been made for the three police cars. One will be used for the code enforcement and the other two will go out for bids. The one car the City is keeping will be available to staff for travel to classes and training. The old police department supplies have been inventoried and will go out for bid.

The City will continue to contract out the accounting responsibilities, although there will be more fiscal management over the monthly reconciliations. Staffing at the Transfer Station will remain with one part-time employee. Operations of the Transfer Station will be 4 hours a week every Saturday, unless there is a holiday. Management is working to promote the use of the site and has added new services such as recycling of batteries, tires and computers.

CITY OF UNION, OREGON
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
June 30, 2009

Library Department continues to be of concern because of the tight budget constraints and large amount of expenditures from the department. A new expenditure policy has been put in place to help with management of expenses. The Library will operate with a budget similar to the previous years. Fall of 2009 the library air conditioner went belly-up. Council may need to restructure the library expenditures to accommodate the purchase of a new air conditioner. The Municipal Park functioned with minimum expenses. The new park restrooms are expected to cost more than budgeted for the reason construction costs are up. Park Department is expected to endure the additional costs in the 2009-2010 year.

Within the Planning Department, both Planning Commission and City Council are struggling with the proposed Comprehensive Plan Amendment which has taken a great deal of staff time and energies over the last year. The City is expecting to have the new code in affect before the end of the 2009-2010 fiscal year. With the newly controlled tracking policy of making sure every minute spent in a department is counted for in that department, the Planning Department is showing much more activity than budgeted for. It has come to management's attention that this department is largely supplemented. This will be followed up by management by means of reviewing costs and proposing changes before the end of the 2009-2010 fiscal year.

This year is the last year for the repayment to the Water and Sewer Fund from the General Fund for the Lowery retirement. At a yearly cost of \$864.00. Additionally the 2010-2011 year will be the last year for repayment of the Golf Course loan from the General Fund to the Water and Sewer Fund of about \$12,000.

Increases in cost of materials and needed goods for the City, such as fuel, heating, electricity, and telephones, the City will likely face a difficult challenge operating within the funds available. However, it is anticipated that the City will end the year with a positive cash carry-over which will help alleviate some of the strains in the next few years.

UTILITY FUND

As with the 2008-2009 budget, the 2009-2010 budget has the revenues separated within the two departments which comprise the Utility Fund. Increased sewer rates will raise adequate funds to cover operational expenses of the sewer department. Because of the Charter Amendments regarding water and sewer revenues, the City continues to make the department self sufficient and no longer reliant on water revenues for operational expenses. With the adoption of the Water Management and Conservation Plan a priority maintenance schedule is currently underway. One project, Gale Street water line replacement was completed during the Fall of 2009 and another project Arch Street water line will take place the Spring and Summer of 2010. The Cove Water Loop project was also completed during the 2008-2009 year. Along with this City crews have started several pre-budgeted maintenance programs for example, meter replacement, hydrant replacement, and water valve exercising.

While the water department continues to gain ground financially, we still have a long ways to go to build the funding needed for emergencies and for long-term maintenance. City is currently working with the Antelope Ridge Wind Farm to sell bulk water for their proposed project. At this point revenues are not projected, but in all likelihood could bring in a large amount of revenue to the department.

While the Sewer Department is bringing in additional revenues as compared to other years, the department like the Water Department has minimal funding for future emergencies and future maintenance. This department had substantial equipment failure at the beginning of the 2009-2010 year,

CITY OF UNION, OREGON
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
June 30, 2009

which used up the majority of budgeted funds for improvements to the plant. A long-term maintenance plan would benefit this department and save the community money.

The City will continue the recently adopted water and sewer rate structure for both departments. Meanwhile, the departments should operate close to that of the previous year, without significant change.

STREET FUND

The Street Fund continues to struggle and the outlook is very gloomy. Council will struggle this year with funding options, management with great effort will try and find alternatives for this fund. No matter what happens it is not anticipated to be favored by all the citizens. During the 2008-2009 year the City received a Special City Allotment Grant from ODOT of \$25,000, which was used to chip seal W. Delta Street. During the beginning of 2009-2010 the City received another Special City Allotment Grant from ODOT of \$25,000. City crews tackled four blocks of W. Grand Street and one block of N. First Street with chip seal. The City is anticipating the grant again for \$25,000, which will be used as part of the City's match for the Dearborn Street project, projected to start during the 2011 calendar year. Another issue that eats away at this Fund from time to time is snow removal. During winters with lots of snow, it puts quite a strain on funds. While this Fund has had some luck over the years, our luck will run out therefore it is time for the city to review future cost projections and find ways to support the fund.

Revenues in the Street Fund showed some growth, but unfortunately City streets had minimal maintenance. Reimbursement for the Special City Allotment Grant from ODOT had not been received by the end of the 2008-2009 year which contributes to the short fall in revenues. Whereas this is true expenditures were also lower than budgeted. This Fund has a clear track record of diminishing funds over the last three years. In the meantime, personal services and materials and services continue to go up.

EMS FUND

The Emergency Service Fund increased its user fee from \$1.75 in the 2008-2009 year to \$3.25 for the 2009-2010 year with a projection of \$36,000 for the year. This will help the department purchase safety items for City volunteers, replace outdated equipment and continued maintenance of vehicles. The department spent most of the funding from the Ambulance Replacement fund on a new Medic 8 Ambulance at the beginning of the 2009-2010 year. To add to this purchase in the 2008-2009 budget year Council approved for nine citizens to start the EMT training. As of today, two of them have passed their State test and are contributing to the service. This is of great news to the department for the reason the City lost over \$9,000 in revenue during the 2008-2009 year because the city did not have the staff to attend to all the 911 calls. Furthermore all burn permit revenue is being placed in the EMS fund. It is a concern of management that there is no EMS funding being used to cover staff time during the processing of permits and the ordinance enforcement regarding burning. It has been discussed to place these revenues in the General Fund next year. Another item of concern is expenses for EMT's vaccinations and continued training. This needs to be budgeted during the 2010-2011 year.

At the beginning of the 2009-2010 year, Council and Rural Fire Board approved a mutual aid agreement that will maximize both entities funds. The City will provide employees to both departments and cover workmen's comp and their monthly stipend. Meanwhile Rural Fire will expend in an equal amount as the City. Rural Fire will pay for all building costs for storage of City equipment, for both fire and ambulance. Additionally Rural Fire will purchase equipment for the department to bring their expenses up to the level for which the city has expensed out.

CITY OF UNION, OREGON
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
June 30, 2009

OTHER FUNDS

System Development funds have grown slowly. With the anticipation of Century Estates Subdivision almost complete, revenues in these funds are predicted to grow faster than in the last couple of years. There have been several more buildable lots created recently which the city will see SDC's on. The Ranger Station is currently managed by the City Staff. This Fund is currently making a profit, therefore management is reviewing maintenance options and putting together a plan for repairs. The water department is renting the larger shop behind the cottages, which is also in need of repairs. Revolving Loan Fund has most recently seen some activity. The RLF Committee approved an application for \$4,000 at the beginning of the 2009-2010 year. Management and Council are looking at ways to best promote the available funding.

Contacting the City's Financial Management

This report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Administrator's office at 342 South Main Street, Union, OR 97883 or telephone at (541) 562-5197.

BASIC FINANCIAL STATEMENTS

CITY OF UNION, OREGON

STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

JUNE 30, 2009

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 335,567	\$ 900,958	\$ 1,236,525
Internal Balances	(13,035)	13,035	0
Capital Assets			
Land & Streets	907,644	6,437,895	7,345,539
Water & Sewer System	0	1,198,694	1,198,694
Wells	0	1,302,567	1,302,567
Buildings & Equipment	1,262,327	142,385	1,404,712
Equipment	0	153,720	153,720
Accumulated Depreciation	(1,450,458)	(4,013,726)	(5,464,184)
Total Capital Assets	<u>719,513</u>	<u>5,221,535</u>	<u>5,941,048</u>
Total Assets	<u>\$ 1,042,045</u>	<u>\$ 6,135,528</u>	<u>\$ 7,177,573</u>
LIABILITIES			
Current Portion of Bonds Payable	\$ 0	\$ 97,011	\$ 97,011
Utility Deposits	0	21,462	21,462
Renter Security Deposits	1,255	0	1,255
Revenue Bond Payable - long-term	0	2,363,463	2,363,463
Bonds Payable - long-term	<u>0</u>	<u>83,327</u>	<u>83,327</u>
Total Liabilities	<u>1,255</u>	<u>2,565,264</u>	<u>2,566,519</u>
NET ASSETS			
Invested in capital assets, net of related debt	719,513	2,677,734	3,397,247
Restricted for:			
Debt Service	0	127,662	127,662
Water/Sewer Capital Improvements	0	16,508	16,508
Streets	66,322	0	66,322
Bike and Pedestrian Paths	7,235	0	7,235
911 System	21,414	0	21,414
Unrestricted	<u>226,306</u>	<u>748,361</u>	<u>974,667</u>
Total Net Assets	<u>1,040,790</u>	<u>3,570,264</u>	<u>4,611,054</u>
Total Liabilities & Net Assets	<u>\$ 1,042,045</u>	<u>\$ 6,135,528</u>	<u>\$ 7,177,573</u>

The accompanying notes are an integral part of this financial statement.

CITY OF UNION, OREGON

STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

FOR THE YEAR ENDED JUNE 30, 2009

Activities:	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services and Fines and Forfeitures	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental:							
General Government	\$ 61,710	\$ 953	\$ 0	\$ 0	\$ (60,758)	\$ 0	\$ (60,758)
Public Safety	161,121	70,372	25,630	0	(65,120)	0	(65,120)
Culture and Recreation	67,636	50	4,225	0	(63,361)	0	(63,361)
Municipal Court	9,340	812	0	0	(8,529)	0	(8,529)
Planning Department	49,366	4,421	0	0	(44,946)	0	(44,946)
Transportation and Streets	80,948	0	75,706	0	(5,242)	0	(5,242)
Solid Waste Transfer Site	6,437	3,011	0	0	(3,426)	0	(3,426)
Rentals	24,317	35,076	0	0	10,759	0	10,759
Depreciation - Unallocated	56,563	0	0	0	(56,563)	0	(56,563)
Total Governmental Activities	517,439	114,693	105,561	0	(297,185)	0	(297,185)
Business-type:							
Water/Sewer Utility	778,547	699,991	5,000	0	0	(73,555)	(73,555)
Total Activities	\$ 1,295,986	\$ 814,684	\$ 110,561	\$ 0	(297,185)	(73,555)	(370,741)
General Revenues:							
Property Taxes					104,579	61,383	165,962
Franchise Fees					95,348	0	95,348
Grants & contributions not restricted to a particular program					45,312	0	45,312
Interest on Investments					5,846	20,481	26,326
Miscellaneous					11,467	21,883	33,350
Transfers - Internal Activities:							
Operating					33,226	(33,226)	0
Total General Revenues and Transfers					295,777	70,521	366,298
Change in Net Assets					(1,408)	(3,035)	(4,443)
Net Assets, July 1, 2008					1,042,198	3,573,298	4,615,496
Net Assets, June 30, 2009					\$ 1,040,790	\$ 3,570,264	\$ 4,611,054

CITY OF UNION, OREGON
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2009

	General Fund	State Tax Street Fund	Emergency Services Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 91,116	\$ 21,507	\$ 20,726	\$ 202,218	\$ 335,567
Total Assets	91,116	21,507	20,726	202,218	335,567
 LIABILITIES AND FUND BALANCES					
LIABILITIES					
Renter Security Deposits	0	0	0	1,255	1,255
Due to Other funds	13,035	0	0	0	13,035
Total Liabilities	13,035	0	0	1,255	14,290
 Fund Balances:					
Reserved for:					
Streets	0	21,507	0	44,815	66,322
Bike & Pedestrian Paths	0	0	0	7,235	7,235
911 System	21,414	0	0	0	21,414
Unreserved reported in:					
General Fund	56,667	0	0	0	56,667
Special Revenue Funds	0	0	20,726	29,106	49,833
Capital Projects Funds	0	0	0	119,807	119,807
Total Fund Balances	78,081	21,507	20,726	200,963	321,277
Total Liabilities and Fund Balances	\$ 91,116	\$ 21,507	\$ 20,726	\$ 202,218	\$ 335,567

The accompanying notes are an integral part of this financial statement.

CITY OF UNION

**Reconciliation of the Balance Sheet of Governmental Funds to the
Statement of Net Assets**

June 30, 2009

Fund Balances of Governmental Funds	\$	321,277
Capital Assets are not financial resources in governmental funds, but are reported in the Statement of Net Assets at their net depreciable value.		<u>719,513</u>
Net assets of governmental activities	\$	<u><u>1,040,790</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF UNION, OREGON

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -

MODIFIED CASH BASIS - GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2009

	General Fund	State Tax Street Fund	Emergency Services Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Taxes:					
Property	\$ 103,972	\$ 0	\$ 607	\$ 0	\$ 104,579
Franchise	95,348	0	0	0	95,348
Licenses and Permits	5,373	0	18,560	0	23,933
Intergovernmental Revenues	47,880	75,706	0	0	123,587
Charges for Services	3,011	0	51,812	0	54,823
Fines and Forfeitures	812	0	0	0	812
Rental Income	50	0	0	35,076	35,126
Miscellaneous Revenue	7,089	3,209	1,870	2,299	14,467
Grants	1,225	0	17,740	5,321	24,286
Interest Income	3,121	717	123	1,885	5,846
	<u>267,880</u>	<u>79,633</u>	<u>90,711</u>	<u>44,581</u>	<u>482,805</u>
EXPENDITURES:					
Administration	61,710	0	0	0	61,710
Public Safety	78,556	0	82,565	0	161,121
Culture and Recreation	66,288	0	0	1,348	67,636
Municipal Court	9,340	0	0	0	9,340
Planning Department	49,366	0	0	0	49,366
Transportation and Streets	0	80,948	0	0	80,948
Solid Waste Transfer Site	6,437	0	0	0	6,437
Rental Expenses	0	0	0	24,317	24,317
Capital Outlay:					
Buildings	0	0	0	10,042	10,042
Streets	0	0	0	0	0
Emergency Services	0	0	0	0	0
	<u>271,698</u>	<u>80,948</u>	<u>82,565</u>	<u>35,707</u>	<u>470,918</u>
Excess of Revenues Over (Under) Expenditures	<u>(3,818)</u>	<u>(1,316)</u>	<u>8,146</u>	<u>8,874</u>	<u>11,887</u>
OTHER FINANCING SOURCES (USES):					
Operating Transfers In		0	0	45,090	45,090
Operating Transfers Out	(12,344)	(10,000)	10,480	0	(11,864)
	<u>(12,344)</u>	<u>(10,000)</u>	<u>10,480</u>	<u>45,090</u>	<u>33,226</u>
Net Change in Fund Balances	(16,162)	(11,316)	18,626	53,964	45,113
FUND BALANCES - BEGINNING	<u>94,242</u>	<u>32,822</u>	<u>2,101</u>	<u>146,999</u>	<u>276,164</u>
FUND BALANCES - ENDING	<u>\$ 78,081</u>	<u>\$ 21,507</u>	<u>\$ 20,726</u>	<u>\$ 200,963</u>	<u>\$ 321,277</u>

The accompanying notes are an integral part of this financial statement.

CITY OF UNION

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

For the year ended June 30, 2009

Net change in fund balances - total governmental funds	\$	45,113
Capital outlays are reported as expenditures in governmental funds. However, the Statement of Activities allocates the cost of capital outlays over their estimated useful lives as depreciation expense. The amount by which capital outlay \$10,042 is exceeded by depreciation expense (\$56,563) in the governmental funds is:		<u>(46,521)</u>
Change in net assets of governmental activities	\$	<u>(1,408)</u>

The notes to the financial statements are an integral part of this statement.

CITY OF UNION, OREGON
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS -
PROPRIETARY FUND
JUNE 30, 2009

		<u>Water/Sewer Utility Fund</u>
ASSETS		
Cash In Bank - Checking	\$	900,958
Interfund Receivable		13,035
Fixed Assets:		
Sewer System		6,437,895
Water System		1,198,694
Well Water System		1,302,567
Sewer Department Equipment		142,385
Water Department Equipment		153,720
Accumulated Depreciation		<u>(4,013,726)</u>
Total Assets	\$	<u>6,135,528</u>
LIABILITIES		
Utility Deposits	\$	21,462
Current Portion of Bonds Payable		97,011
Revenue Bond Payable		2,363,463
General Obligation Bonds Payable		<u>83,327</u>
Total Liabilities		<u>2,565,264</u>
NET ASSETS		
Invested in capital assets, net of related debt		2,677,734
Restricted for Debt Service		127,662
Restricted for Capital Improvements		16,508
Unrestricted		<u>748,361</u>
Total Net Assets		<u>3,570,264</u>
Total Liabilities and Net Assets	\$	<u>6,135,528</u>

The accompanying notes are an integral part of this financial statement.

CITY OF UNION, OREGON

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -

PROPRIETARY FUND

FOR THE YEAR ENDED JUNE 30, 2009

	<u>Water/Sewer Utility Fund</u>
OPERATING REVENUES:	
Charges for Services	\$ <u>699,991</u>
OPERATING EXPENSES:	
Water Department	227,055
Sewer Department	211,216
Depreciation Expense	<u>224,635</u>
Total Operating Expenses	<u>662,905</u>
Operating Income	<u>37,086</u>
NON-OPERATING REVENUES (EXPENSES):	
Interest Revenue	20,481
Grant Revenue	5,000
Property Tax Revenue	61,383
Reimbursements and Miscellaneous	21,883
Interest Expense	<u>(115,641)</u>
Total Non-Operating Revenues (Expenses)	<u>(6,895)</u>
Income Before Operating Transfers	30,191
OPERATING TRANSFERS	
Transfers (Out)	<u>(33,226)</u>
Total Transfers	<u>(33,226)</u>
CHANGE IN NET ASSETS	(3,035)
TOTAL NET ASSETS - BEGINNING	<u>3,573,298</u>
TOTAL NET ASSETS - ENDING	<u>\$ <u>3,570,264</u></u>

The accompanying notes are an integral part of this financial statement.

CITY OF UNION, OREGON
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS -
PROPRIETARY FUND
JUNE 30, 2009

		<u>Water/Sewer Utility Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from Customers and Users	\$	699,991
Payments to Suppliers		(213,557)
Payments to Employees		(224,714)
		<hr/>
Net Cash Provided By Operating Activities		261,720
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Property Tax Receipts		61,383
Grant Proceeds		5,000
Reimbursements Received		21,883
Net Utility Deposits Collected		747
Transfers (Out)		(33,226)
		<hr/>
Net Cash Provided (Used) By Noncapital Financing Activities		55,787
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchases of Fixed Assets		(10,000)
Principal Payments on Bonded Indebtedness		(88,258)
Interest Paid on Bonded Indebtedness		(115,641)
		<hr/>
Net Cash Provided (Used) by Financing Activities		(213,899)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interfund Loan Repayments Received		13,000
Interest Income		20,481
		<hr/>
Net Cash Provided by Investing Activities		33,481
NET INCREASE (DECREASE) IN CASH		137,089
CASH AT BEGINNING OF YEAR		<hr/> 763,868
CASH AT END OF YEAR	\$	<hr/><hr/>900,958
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating Income/(Loss)		37,086
Depreciation		224,635
		<hr/>
Net Cash Provided by Operating Activities	\$	<hr/><hr/>261,720

The accompanying notes are an integral part of this financial statement.

CITY OF UNION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1.C, these financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

1.A. FINANCIAL REPORTING ENTITY

The City of Union is an Oregon Municipal Corporation which operates under a council-mayor form of government as authorized by its charter. The City Administrator oversees the day to day operation of the City and serves at the direction of the City Council. The Council is composed of six elected members and an elected mayor. In addition to other routine services, the City maintains police and fire protection, city streets and lighting, water and sewer utility systems, city parks and library.

The City's financial reporting entity is composed of the primary government of the City of Union. The City has no component units. In determining the financial reporting entity, the City complies with the provisions of GASB Statement Number 14, *The Financial Reporting Entity*.

1.B. BASIS OF PRESENTATION

GOVERNMENT - WIDE FINANCIAL STATEMENTS

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

FUND FINANCIAL STATEMENTS

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. The City presently has no fiduciary funds. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

CITY OF UNION
 NOTES TO BASIC FINANCIAL STATEMENTS, Continued
 JUNE 30, 2009

FUND FINANCIAL STATEMENTS, Continued

- a. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.
- c. The government believes the fund activity is of special interest to financial statement users and has elected to show the fund as a major fund.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

The General Fund is the primary operating fund of the City and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of the specific revenue sources that are either legally restricted to expenditures for specified purposes or designated to finance particular functions or activities of the City. The reporting entity includes the following special revenue funds, of which two, the Special Street Fund and the Emergency Services Fund are reported as major funds:

<i>Fund</i>	<i>Brief Description</i>
Special Street Fund	Accounts for revenues from state gas tax apportionments, miscellaneous revenues and for related expenditures for street maintenance.
Emergency Services Fund	Accounts for revenues from property taxes, ambulance fees, miscellaneous revenues, and for related expenditures for emergency medical and fire protection services.
Ranger Station Fund	Accounts for the rental operations and maintenance of historic forest ranger station located within the City.
Downtown Revolving Loan Fund	Accounts for business development loans and grants to city businesses.

CITY OF UNION
 NOTES TO BASIC FINANCIAL STATEMENTS, Continued
 JUNE 30, 2009

FUND FINANCIAL STATEMENTS, Continued

Capital Project Funds

Capital project funds are used to account for resources restricted for the acquisition or construction of specific capital projects or items. The reporting entity includes the following capital project funds that are reported as non-major funds:

<i>Fund</i>	<i>Brief Description</i>
Bike/Pedestrian Path Fund	Used to account for state highway monies restricted for bike and pedestrian paths.
Vehicle Equipment Reserve Fund	Used to accumulate money for future purchases of equipment and vehicles. Funded by transfers from the General and Street Funds.
Building Maintenance Reserve Fund	Used to accumulate money for major building maintenance and improvement projects, funded by transfers from other funds and interest income.
Street Improvement Reserve Fund	Used to accumulate money for major street improvements, funded by transfers from other funds and interest income.
Ambulance Replacement Reserve Fund	Used to accumulate money for replacement of ambulance, funded by transfers from the General and Emergency Services Funds.
Union Community Trust Fund	Used to account for donations and grants that are earmarked for the improvement of the City and City assets.

Proprietary Funds

Enterprise Funds

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges, and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the following enterprise funds of which the Water/Sewer Utility Fund is reported as a major fund:

CITY OF UNION
NOTES TO BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2009

FUND FINANCIAL STATEMENTS, Continued

Enterprise Funds, Continued

<u>Fund</u>	<u>Brief Description</u>
Water/Sewer Utility Fund	Accounts for the activities of the City in providing water, and wastewater utility services to the public.

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe “how” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

MEASUREMENT FOCUS

In the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, as defined in item b below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus, as applied to the modified cash basis of accounting, is used as appropriate:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent, financial, or nonfinancial) associated with their activities are reported. Proprietary fund equity is classified as net assets.

BASIS OF ACCOUNTING

In the government-wide Statement of Net Assets and Statement of Activities and the fund financial statements, governmental and business-like activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision

CITY OF UNION
NOTES TO BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2009

BASIS OF ACCOUNTING, Continued

for depreciation in the government-wide statements and proprietary fund statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) *are not recorded* in these financial statements.

If the City utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

1.D. ASSETS, LIABILITIES, AND EQUITY

CASH AND CASH EQUIVALENTS

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less. Investments in the Oregon Short Term Fund (OSTF) an investment pool administered by the Oregon state treasurer are also considered cash equivalents.

INVESTMENTS

The City has not adopted its own investment policy. However, under authority of State Law the City may generally invest in obligations of the U.S. Government, the obligations of the State of Oregon and certain other states, time deposits, certificates, and savings accounts in Oregon banks and savings and loan associations as well as the Oregon Short Term Fund (OSTF). The City has no investments other than the investment in the OSTF.

CAPITAL ASSETS

The City's modified cash basis of accounting reports capital assets resulting from cash transactions and reports depreciation where appropriate. The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary funds, and whether they are reported in the government-wide or fund financial statements.

Government-Wide Statements

In the government-wide financial statements, capital assets arising from cash transactions are accounted for as assets in the Statement of Net Assets. All capital assets are valued at historical costs, or estimated historical cost if actual is unavailable.

CITY OF UNION
NOTES TO BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2009

Government-Wide Statements, Continued

Depreciation of all exhaustible capital assets arising from cash transactions is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. A capitalization threshold of \$5,000 is used to report capital assets. The range of estimated useful lives by type of asset is as follows:

Buildings	30-50 years
Improvements other than buildings	10-25 years
Machinery, furniture and equipment	3-20 years
Utility property and improvements	10-60 years
Infrastructure	25-60 years

Fund Financial Statements

In the fund financial statements, capital assets arising from cash transactions acquired from use in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets acquired for use in proprietary fund operations are accounted for the same as in the government-wide statements.

LONG-TERM DEBT

All long-term debt arising from cash basis transactions to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements.

Long-term debt arising from cash basis transactions of governmental funds are not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary funds is the same in the fund financial statements as the treatment in the government-wide statements

EQUITY CLASSIFICATION

Government-Wide Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- b. Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

CITY OF UNION
NOTES TO BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2009

Government-Wide Statements, Continued

- c. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

It is the City's policy to first use restricted net assets prior to the use of unrestricted net assets when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Financial Statements

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

1.E. REVENUES, EXPENDITURES, AND EXPENSES

PROGRAM REVENUES

In the Statement of Activities, modified cash basis revenues that are derived directly from each activity or from parties outside the City's taxpayers are reported as program revenues. The City has the following program revenues in each activity:

General Government	Fines, licenses and permits, operating grants.
Public Safety	Charges for services, operating grants.
Highways and Streets	State gas tax allocations and charges for services
Culture and Recreation	Grants and Donations
Planning	Charges for services
Solid Waste Transfer Site	Charges for services
Municipal Court	Fines and forfeitures
Rentals	Charges for services

GENERAL REVENUES

All other governmental revenues are reported as general. All taxes are classified as general revenue even if restricted for a specific purpose.

The City's property taxes for the fiscal year ending June 30, 2009 become a lien on the property on the first day of the fiscal year and are levied in July. If the taxes are paid by November 15th, a three percent discount is given, otherwise installments of one-third of the levied taxes are due on November 15, February 15, and May 15.

CITY OF UNION
NOTES TO BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2009

OPERATING REVENUE AND EXPENSES

Operating revenues and expenses for proprietary funds result from providing services and producing and delivering goods and/or services. Non operating revenues and expenses include all revenues and expenses related to capital and related financing, noncapital financing, investing activities, and property tax collections.

Primary revenues in the Water/Sewer Utility Fund are charges for water and sewer services. Property taxes are an additional revenue used toward repayment of bonded indebtedness incurred during construction of water and sewer plant assets.

1.F. INTERNAL AND INTERFUND BALANCES AND ACTIVITIES

In the process of aggregating the financial information for the government-wide Statement of Net Assets and Statement of Activities, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

FUND FINANCIAL STATEMENTS

Interfund activity, if any, within and among the governmental and proprietary fund categories is reported as follows in the fund financial statements:

1. Interfund loans - Amounts provided with a requirement for repayment are reported as interfund receivables and payables.
2. Interfund services - Sales or purchases of goods and services between funds are reported as revenues and expenditures/expenses.
3. Interfund reimbursements - Repayments from the funds responsible for certain expenditures/expenses to the funds that initially paid for them are not reported as reimbursements but as adjustments to expenditures/expenses in the respective funds.
4. Interfund transfers - Flow of assets from one fund to another where repayment is not expected are reported as transfers in and out.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

1. Internal balances - Amounts reported in the fund financial statements as interfund receivables and payables are eliminated in the governmental and business-type activities columns of the Statement of Net Assets, except for the net residual amounts due between governmental and business-type activities, which are reported as Internal Balances.

CITY OF UNION
 NOTES TO BASIC FINANCIAL STATEMENTS, Continued
 JUNE 30, 2009

GOVERNMENT-WIDE FINANCIAL STATEMENTS, Continued

Internal activities - Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers - Internal Activities. The effects of interfund services between funds are not eliminated in the Statement of Activities.

1.G. USE OF ESTIMATES

The preparation of financial statements in conformity with the other comprehensive basis of accounting (OCBOA) used by the City requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

By its nature as a local government unit, the City of Union is subject to various federal, state, and local laws and contractual regulations. The following instances of noncompliance are considered material to the financial statements.

2.A. BUDGETARY AND OTHER NONCOMPLIANCE

For the fiscal year ended June 30, 2009, the following violations of Oregon Local Budget Law were noted:

1. A budget adjusting resolution was approved by the City Council on June 29, 2009. This was after some expenditures had been made in excess of appropriations available at the time of the expenditure. This is in violation of Oregon Revised Statutes (ORS) 294.435.

For the year ended June 30, 2009, the City had one instance where expenditures exceeded appropriations at the legal level of control in individual funds.

<i>Fund</i>	<i>Object Category</i>	<i>Expenditures Exceeding Appropriations</i>
Ranger Station Fund	Personal Services	\$ 64

NOTE 3. DETAIL NOTES - TRANSACTION CLASSES/ACCOUNTS

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues, and expenditures/expenses.

CITY OF UNION
 NOTES TO BASIC FINANCIAL STATEMENTS, Continued
 JUNE 30, 2009

3.A. DEPOSITS AND INVESTMENTS

CUSTODIAL CREDIT RISK - DEPOSITS

Effective July 1, 2008, the Oregon State Treasurer became responsible for monitoring public funds held by bank depositories in excess of FDIC insured amounts. Oregon Revised Statutes (ORS) Chapter 295 requires depository banks to deposit with a third party bank custodian securities having a value of 10%, 25%, or 110% of public funds on deposit in excess of FDIC insurance limits depending on the capitalization level of the depository bank. This collateral is to be in the name of the Oregon State Treasurer (Treasurer). Should a bank holding public funds in amounts in excess of FDIC insurance limits fail, the Treasurer shall have the authority to recover losses of public funds due to the bank failure from the collateral pledged by the failed bank to the Treasurer and if there is a deficiency, recover the deficient amount from collateral pledged by all banks participating in this public funds deposit collateral program.

At year end, the City's carrying amount of bank deposits was \$1,192,288 and the bank balance was \$1,223,323. Of this balance \$301,165 was covered by federal depository insurance. The remaining balance of \$922,158 was fully collateralized under the provisions of ORS 295.

At June 30, 2009 the City also has an investment of \$42,318 in the Oregon Short Term Fund (OSTF), an external investment pool administered by the Oregon State Treasurer. The OSTF is regulated under Oregon Revised Statutes (ORS) 294.805-294.895. The fair value of the City's position in the OSTF is equal to the value of its participant balance. The OSTF invests in US Agency Securities, Corporate Bonds, Commercial Paper and Certificates of Deposit. The OSTF's investment policy requires a minimum weighted average credit rating for its investment holdings of AA and Aa2 for Standard and Poor's and Moody's respectively. The OSTF itself is not rated.

The City held no other investments during the year ended June 30, 2009.

3.B. RESTRICTED ASSETS

Article IX section 3a of the Oregon constitution restricts motor vehicle fuel and use taxes to be used for the maintenance, improvement, repair and operation of roads and streets. Oregon Revised Statutes (ORS 366.514) requires one percent of motor vehicle tax revenues to be used only for bike and pedestrian paths. Restricted assets consists of the unused portion of the restricted gas tax revenues.

United States Department of Agriculture Rural Development (RD) requires a restricted reserve for each loan/bond outstanding. The reserve is to be used only in the event the City has insufficient resources to meet its payment obligation or in the event of a major catastrophe involving the debt financed project. The City is in compliance with reserve requirements. The reserve requirements for the three outstanding RD loans used for sewer system construction are:

<i>Loan Number</i>	<i>Annual Reserve Requirement</i>	<i>Maximum Reserve Requirement</i>	<i>Current Reserve Balance</i>
92-02	\$ 480	\$ 6,000	\$ 6,000
92-03	735	7,350	7,350
92-05	14,289	142,887	114,312
Totals	\$ 15,504	\$ 156,237	\$ 127,662

CITY OF UNION
NOTES TO BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2009

3.B. RESTRICTED ASSETS, Continued

The City has implemented a policy to collect System Development Charges (SDC's) from developers of property within the City of Union. These charges are levied when new development is connected to the City's water and sewer systems and are in excess of the cost of the actual connection. The collection of SDC's is authorized by ORS 223.297 to 223.314 and these statutes restrict the revenue collected from SDC's to be used only for capital improvements which enhance system capacities. The amount restricted as of June 30, 2009 is \$16,508.

In the past and current fiscal years the City collected within it's General Fund monies from the state emergency communications account. These monies are derived from the state's 911 telephone tax and are restricted to be used for the planning, installation, maintenance, operation and improvement of the 911 system. These funds, and any interest received from these funds, may only be used for activities that handle emergency calls from the citizens to the responding emergency service provider. These restricted funds within the General Fund total \$21,414 as of June 30, 2009. The City has entered into an agreement with the Union County 911 consolidated dispatch center to turn over the remaining restricted funds to the center over the next three years and to direct all future allocations from the state be sent directly to the center.

3.C. CAPITAL ASSETS

Capital asset activity, resulting from modified cash basis transactions, for the year ended June 30, 2009 was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets:				
Land and Streets	\$ 907,644	\$ 0	\$ 0	\$ 907,644
Buildings and Equipment	<u>1,252,285</u>	<u>10,042</u>	<u>0</u>	<u>1,262,327</u>
Total capital assets	<u>2,159,929</u>	<u>10,042</u>	<u>0</u>	<u>2,169,971</u>
Less accumulated depreciations for:				
Streets	(536,383)	(20,526)	0	(556,909)
Buildings and Equipment	<u>(857,512)</u>	<u>(36,037)</u>	<u>0</u>	<u>(893,549)</u>
Total accumulated depreciation	<u>(1,393,895)</u>	<u>(56,563)</u>	<u>0</u>	<u>(1,450,458)</u>
Governmental activities capital assets, net	<u>\$ 766,034</u>	<u>\$ (46,521)</u>	<u>\$ 0</u>	<u>\$ 719,513</u>

CITY OF UNION
NOTES TO BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2009

3.C. CAPITAL ASSETS, Continued

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets:				
Sewer System	\$ 6,437,895	\$ 0	\$ 0	\$ 6,437,895
Water System	1,188,694	10,000	0	1,198,694
Wells	1,302,567	0	0	1,302,567
Sewer Department Equipment	142,385	0	0	142,385
Water Department Equipment	<u>153,720</u>	<u>0</u>	<u>0</u>	<u>153,720</u>
Total capital assets	<u>9,225,261</u>	<u>10,000</u>	<u>0</u>	<u>9,235,261</u>
Less accumulated depreciated for:				
Sewer System	(2,141,219)	(160,947)	0	(2,302,166)
Water System	(572,595)	(31,124)	0	(603,719)
Wells	(779,172)	(32,564)	0	(811,736)
Sewer Department Equipment	(142,385)	0	0	(142,385)
Water Department Equipment	<u>(153,720)</u>	<u>0</u>	<u>0</u>	<u>(153,720)</u>
Total accumulated depreciation	<u>(3,789,091)</u>	<u>(224,635)</u>	<u>0</u>	<u>(4,013,726)</u>
Business-type activities capital assets, net	<u>\$ 5,436,170</u>	<u>\$ (214,635)</u>	<u>\$ 0</u>	<u>\$ 5,221,535</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:		
Unallocated*		\$ 56,563
Total depreciation expense - governmental activities		<u>\$ 56,563</u>
Business-type activities:		
Water Utility		\$ 63,688
Sewer Utility		160,947
Total depreciation expense-business-type activities		<u>\$ 224,635</u>

*Due to the incompleteness of the City's fixed asset records it is unable to allocate depreciation expense by function for the governmental activities.

3.D. LONG-TERM DEBT

The reporting entity's long-term debt arising from cash transactions is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities.

GOVERNMENTAL ACTIVITIES

As of June 30, 2009, the City had no long term debt, arising from cash transactions, payable from governmental fund resources.

BUSINESS-TYPE ACTIVITIES

As of June 30, 2009, the long-term debt, arising from cash transactions, payable from proprietary fund resources consisted of the following:

CITY OF UNION
NOTES TO BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2009

3.D. LONG-TERM DEBT, Continued

Notes and Bonds Payable:

Note Payable to Community Bank which refinanced a United States Department of Agriculture loan used to finance construction of water system improvements. Annual payments of \$49,000 include interest at 4.75% with a maturity date of June 25, 2010.	\$ 54,492
General Obligation Bond Payable to United States Department of Agriculture Rural Development (formerly Farmers Home Administration) dated September 15, 1977 for construction of sewer system improvements. Semi annual payments of \$3,674 including interest at 5.0%. Matures September 15, 2017.	30,841
General Obligation Bond Payable to United States Department of Agriculture Rural Development (formerly Farmers Home Administration) dated May 15, 1980 for construction of sewer system improvements. Semi annual payments of \$2,332 including interest at 5.0%. Matures May 15, 2020.	60,047
Revenue Bond Payable to United States Department of Agriculture Rural Development dated November 1, 2000 for construction of sewer system improvements. Annual payments of \$142,887 include interest at 4.5% with a maturity of November 1, 2040.	<u>2,398,421</u>
Total Business-type activity long term debt	<u>\$ 2,543,801</u>

Refundable Deposits:

Refundable deposits reported as a liability within the Statement Net Assets are composed of the following:

Utility Deposits - Refundable	\$ 21,462
Rental Security Deposits - Refundable	<u>1,255</u>
Total Refundable Deposits	<u>\$ 22,717</u>

CHANGES IN LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended June 30, 2009:

<i>Type of Debt</i>	<i>Balance July 1, 2008</i>	<i>Additions</i>	<i>Transfers</i>	<i>Reductions</i>	<i>Balance June 30, 2009</i>	<i>Amount Due Within One Year</i>
Business-Type Activities:						
Notes and Bonds Payable	\$ 2,632,059	\$ 0	\$ 0	\$ (88,258)	\$ 2,543,801	\$ 97,011
	<u>\$ 2,632,059</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (88,258)</u>	<u>\$ 2,543,801</u>	<u>\$ 97,011</u>

CITY OF UNION
 NOTES TO BASIC FINANCIAL STATEMENTS, Continued
 JUNE 30, 2009

3.D. LONG-TERM DEBT, Continued

DEBT SERVICE REQUIREMENTS TO MATURITY

The annual debt service requirements to maturity, including principal, interest and fees for long-term debt, except for refundable deposits, as of June 30, 2009, are as follows:

<i>Year Ended June 30,</i>	<i>Business-type Activities Long Term Debt Obligations</i>	
	<i>Principal</i>	<i>Interest</i>
2010	\$ 97,011	\$ 114,968
2011	44,475	110,424
2012	46,521	108,378
2013	48,661	106,238
2014	50,900	103,999
2015 - 2019	282,840	482,930
2020 - 2024	301,542	417,575
2025 - 2029	370,114	344,321
2030 - 2034	461,230	253,206
2035 - 2039	574,776	139,659
2040 - 2044	265,731	18,024
Total	<u>\$ 2,543,801</u>	<u>\$ 2,199,722</u>

3.F. INTERFUND TRANSFERS AND BALANCES

INTERFUND TRANSFERS

Transfers between funds of the City for the year ended June 30, 2009, were as follows:

Transfer out:	Transfer In:			
	Water/Sewer Utility Fund	Emergency Services Fund	Nonmajor Governmental Funds	Total
General Fund	\$ 864	\$ 10,480	\$ 1,000	\$ 12,344
Special Street Fund	0	0	10,000	10,000
Water Reserve Fund	0	0	34,090	34,090
Total Operating Transfers	<u>\$ 864</u>	<u>\$ 10,480</u>	<u>\$ 45,090</u>	<u>\$ 56,434</u>

CITY OF UNION
NOTES TO BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2009

3.F. INTERFUND TRANSFERS AND BALANCES, Continued

Transfers from the State Tax Street Fund to the nonmajor funds Street Improvement Reserve Fund are to set aside monies for major street projects and purchases of street maintenance equipment. Transfers from the Water Reserve Fund to the nonmajor Building Maintenance Reserve Fund are to set aside money for future improvement projects. Transfers from the Water/Sewer Fund to the nonmajor Street Improvement Reserve Fund are to set aside money for future improvement projects.

INTERFUND LOANS

At June 30, 2009 the City had two interfund loans outstanding which were the result of the General Fund taking over part of the debt owed by the Golf Course Maintenance Fund to the Water Reserve Fund and the Sewer Reserve Fund. The City plans to make the final payment on this interfund debt in the upcoming fiscal year.

NOTE 4. OTHER NOTES

4.A. EMPLOYEE PENSION AND OTHER BENEFIT PLANS

PENSION PLANS

The City maintains a defined contribution pension plan administrated by the Variable Annuity Life Insurance Company (VALIC) (a subsidiary of American International Group, Inc.) located at 2929 Allen Parkway, Houston, TX 77019.

The City is required to contribute the total amount necessary to fund the System. Beginning July 1, 2002, the City began paying the employees' 6 % plus the City's previous contribution of 8 % of eligible wages into the plan. Total pension expense for the year ending June 30, 2009 amounted to \$ 34,264. Of the total pension expense, \$10,275 was the result of a "catch up" contribution for employees who were originally thought to be ineligible. All amounts contributed under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the participant, in accordance with the City's 5-Year vesting schedule. The employee has a choice of several investment options within the plan and the investment decision is solely that of the employee. The City does not guarantee the investments nor any return on investment. The terms of the plan allow it to be modified or discontinued by the employer at anytime. The City has a contract with the union representing the city employees to maintain the current contribution rate through the expiration of the contract on June 30, 2011.

The City disbanded its police department during February 2007. City police officers who had performed six months of service were covered by the Oregon Public Employees Retirement Plan (PERS). The City has not had any PERS covered employees and has made no PERS contributions in the past three years. Should the City hire any police officers, they would be subject to PERS in the future. The City has no plans to hire any police officers and currently contracts with the Union County Sherif for police services.

CITY OF UNION
NOTES TO BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2009

4.A. EMPLOYEE PENSION AND OTHER BENEFIT PLANS, Continued

PENSION PLANS, Continued

A deferred compensation plan is offered to employees in conjunction with the VALIC pension plan. Employees are offered the option of deferring a portion of their salary into the deferred compensation plan in lieu of cash wages. All amounts deferred are vested immediately.

COMPENSATED ABSENCES

Full time employees have available 12 days of sick pay annually. Unused days are accumulated and are available in future years if an extended illness should occur but are lost upon termination of the employee. Vacation pay and other compensated absences are charged to expense when the benefit is paid. No provision has been made in the financial statements for the \$10,004 in vacation time earned but not paid, or the \$1,877 in compensatory time earned but not paid as of June 30, 2009 because these compensated absence accruals were not the result of a cash transaction.

4.B. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; and natural disasters for which the City carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years. The City obtains most of its insurance coverage through City County Insurance Services under an insurance pooling arrangement in which many cities and counties in Oregon participate. The risk of additional assessments to the City over premiums paid is presently deemed remote by City management.

4.C. CONTINGENCIES AND COMMITMENTS

CONTINGENCIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, could become a liability of the General Fund or other applicable funds.

During the 2001 and 2002 fiscal years and during the original construction of the Buffalo Peak Golf Course, money to aid with the construction came from Union Co. This came in the form of loans and grant monies. Included in this money was approximately \$ 90,000 originally believed to be loans. However, per the City's inquiry with the County, no loans were ever recorded on Union County's books and Union County apparently had treated all flow of money as grants to the City. Therefore, the City wrote off all of this debt in 2002.

CITY OF UNION
NOTES TO BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2009

4.C. CONTINGENCIES AND COMMITMENTS, Continued

CONTINGENCIES, Continued

The City also believed these loans would terminate, if not before, at the time the golf course was repossessed and turned over to Union County. The City believes it is no longer liable on any debt to the County.

Several claims and potential claims have been made against the City. Although the outcome of these claims is not presently determinable, the City has turned them over to its insurance carrier. The City does not believe these claims will have a material adverse affect on the City's financial condition.

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Required Supplementary Information

CITY OF UNION, OREGON

BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2009

	BUDGET		ACTUAL		
	Original Budget	Final Budget	Budget Basis	Adjustment	Modified Cash Basis
REVENUES:					
Local Taxes					
Property Taxes - Current Year	\$ 100,587	\$ 100,587	\$ 100,631	\$ 0	\$ 100,631
Property Taxes - Prior Year	4,000	4,000	3,341	0	3,341
Franchise Fees	100,300	100,300	95,348	0	95,348
Total Local Taxes	<u>204,887</u>	<u>204,887</u>	<u>199,320</u>	<u>0</u>	<u>199,320</u>
Licenses & Permits					
Land Use Fees	3,000	36,600	4,421	0	4,421
License & Fees	1,900	1,900	953	0	953
Total Licenses and Permits	<u>4,900</u>	<u>38,500</u>	<u>5,373</u>	<u>0</u>	<u>5,373</u>
Intergovernmental					
Cigarette Tax Apportionment	3,211	3,211	3,367	0	3,367
State Liquor Apportionment	23,211	23,211	23,038	0	23,038
911 Taxes	10,480	10,480	7,890	0	7,890
Oregon Revenue Sharing Funds	12,500	12,500	13,586	0	13,586
Total Intergovernmental	<u>49,402</u>	<u>49,402</u>	<u>47,880</u>	<u>0</u>	<u>47,880</u>
Charges for Services					
Transfer Site Revenue	6,000	6,000	3,011	0	3,011
Total Charges for Services	<u>6,000</u>	<u>6,000</u>	<u>3,011</u>	<u>0</u>	<u>3,011</u>
Fines and Forfeitures					
Vehicle Impounds	100	100	0	0	0
District Court Fines	350	350	0	0	0
Municipal Court Fines	3,600	3,600	812	0	812
Animal Impounds	100	100	0	0	0
Total Fines and Forfeitures	<u>4,150</u>	<u>4,150</u>	<u>812</u>	<u>0</u>	<u>812</u>
Rental Income	100	100	50	0	50
Refunds, Donations and Miscellaneous	6,150	6,150	7,089	0	7,089
Interest	1,500	1,500	3,121	0	3,121
Grants	33,275	70,015	1,225	0	1,225
Total Revenues	<u>310,364</u>	<u>380,704</u>	<u>267,880</u>	<u>0</u>	<u>267,880</u>
EXPENDITURES:					
Administrative:					
Personal Services	36,500	36,500	31,745		31,745
Materials/Services	33,820	37,820	29,965	0	29,965
Capital Outlay	2,500	2,500	0	0	0
Total Administrative	<u>72,820</u>	<u>76,820</u>	<u>61,710</u>	<u>0</u>	<u>61,710</u>
Police Department:					
Personal Services	0	0	0	0	0
Materials/Services	86,200	86,200	78,556	0	78,556
Total Police Department	<u>86,200</u>	<u>86,200</u>	<u>78,556</u>	<u>0</u>	<u>78,556</u>

CITY OF UNION, OREGON

BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2009

	BUDGET		ACTUAL		
	Original Budget	Final Budget	Budget Basis	Adjustment	Modified Cash Basis
Library:					
Personal Services	39,196	39,196	37,800	0	37,800
Materials/Services	21,725	21,725	21,286	0	21,286
Total Library	<u>60,921</u>	<u>60,921</u>	<u>59,086</u>	<u>0</u>	<u>59,086</u>
Municipal Court:					
Personal Services	5,075	9,075	8,665	0	8,665
Materials/Services	1,850	1,850	676	0	676
Total Municipal Court	<u>6,925</u>	<u>10,925</u>	<u>9,340</u>	<u>0</u>	<u>9,340</u>
Planning Department:					
Personal Services	0	10,000	7,913	0	7,913
Materials/Services	37,700	61,300	41,454	0	41,454
Total Planning Department	<u>37,700</u>	<u>71,300</u>	<u>49,366</u>	<u>0</u>	<u>49,366</u>
Solid Waste Transfer Site:					
Personal Services	2,874	2,874	1,622	0	1,622
Materials/Services	10,600	10,600	4,814	0	4,814
Total Solid Waste Transfer Site	<u>13,474</u>	<u>13,474</u>	<u>6,437</u>	<u>0</u>	<u>6,437</u>
Municipal Park:					
Personal Services	2,874	4,874	4,105	0	4,105
Materials/Services	8,900	8,900	3,097	0	3,097
Capital Outlay	0	36,740	0	0	0
Total Municipal Park	<u>11,774</u>	<u>50,514</u>	<u>7,202</u>	<u>0</u>	<u>7,202</u>
Contingency	<u>22,206</u>	<u>12,206</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Expenditures	<u>312,020</u>	<u>382,360</u>	<u>271,698</u>	<u>0</u>	<u>271,698</u>
Excess of Revenues Over (Under) Expenditures	(1,656)	(1,656)	(3,818)	0	(3,818)
OTHER FINANCING SOURCES (USES):					
Operating Transfers (Out)	(12,344)	(12,344)	(12,344)		(12,344)
Interfund Loan Transfers (Out)	(13,000)	(13,000)	(13,000)	13,000	0
Total Transfers	<u>(25,344)</u>	<u>(25,344)</u>	<u>(25,344)</u>	<u>13,000</u>	<u>(12,344)</u>
Net Changes in Fund Balance	(27,000)	(27,000)	(29,162)	13,000	(16,162)
FUND BALANCE - BEGINNING	<u>27,000</u>	<u>27,000</u>	<u>120,277</u>	<u>(26,035)</u>	<u>94,242</u>
FUND BALANCE - ENDING	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 91,116</u>	<u>\$ (13,035)</u>	<u>\$ 78,081</u>

CITY OF UNION, OREGON
 BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
 STATE STREET TAX FUND
 FOR THE YEAR ENDED JUNE 30, 2009

	BUDGET		ACTUAL		
	Original Budget	Final Budget	Budget Basis	Adjustment	Modified Cash Basis
REVENUES:					
State Highway Apportionment	\$ 91,550	\$ 91,550	\$ 75,706	\$ 0	\$ 75,706
ODOT Small City Allotment	25,000	25,000	0	0	0
Charges for Services	1,000	1,000	0	0	0
Miscellaneous Income	100	100	3,209	0	3,209
Interest Income	1,000	1,000	717	0	717
Total Revenues	118,650	118,650	79,633	0	79,633
EXPENDITURES:					
Personal Services	38,805	38,805	35,703	0	35,703
Materials/Services	51,430	51,430	43,769	1,477	45,246
Capital Outlay	40,000	40,000	1,477	(1,477)	0
Contingency	2,415	2,415	0	0	0
Total Expenditures	132,650	132,650	80,948	0	80,948
Excess of Revenues Over (Under) Expenditures	(14,000)	(14,000)	(1,316)	0	(1,316)
OTHER FINANCING (USES):					
Operating Transfers - Out	(10,000)	(10,000)	(10,000)	0	(10,000)
Net Changes in Fund Balance	(24,000)	(24,000)	(11,316)	0	(11,316)
FUND BALANCE - BEGINNING	24,000	24,000	32,822	0	32,822
FUND BALANCE - ENDING	\$ 0	\$ 0	\$ 21,507	\$ 0	\$ 21,507

CITY OF UNION, OREGON

BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS

EMERGENCY SERVICES FUND

FOR THE YEAR ENDED JUNE 30, 2009

	BUDGET		ACTUAL		
	Original Budget	Final Budget	Budget Basis	Adjusted Adjustment	Modified Cash Basis
REVENUES:					
Property Tax Revenue	\$ 750	\$ 750	\$ 607	\$ 0	\$ 607
Grants	0	24,200	17,740	0	17,740
Ambulance Service Fees	60,000	60,000	51,812	0	51,812
Utility Bill Surcharge Fees	18,900	18,900	16,105	0	16,105
Burn Permits	2,500	2,500	2,455	0	2,455
Miscellaneous Revenue	350	350	1,870	0	1,870
Interest Income	100	100	123	0	123
Total Revenues	82,600	106,800	90,711	0	90,711
EXPENDITURES:					
Personal Services	12,981	14,533	14,019	0	14,019
Materials/Services	75,690	75,690	48,306	20,240	68,546
Capital Outlay	0	24,200	20,240	(20,240)	0
Contingency	3,909	2,357	0	0	0
Total Expenditures	92,580	116,780	82,565	0	82,565
Excess of Revenues Over (Under) Expenditures	(9,980)	(9,980)	8,146	0	8,146
OTHER FINANCING (USES):					
Operating Transfers - In (Out)	10,480	10,480	10,480	0	10,480
Net Changes in Fund Balance	500	500	18,626	0	18,626
FUND BALANCE - BEGINNING	4,500	4,500	2,101	0	2,101
FUND BALANCE - ENDING	\$ 5,000	\$ 5,000	\$ 20,726	\$ 0	\$ 20,726

CITY OF UNION

Notes to Required Supplementary Information

For the year ended June 30, 2009

Budget to Modified Cash Basis Reconciliation

The City of Union's fund balances for the major governmental funds are the same for both Oregon Budget Law and for the Modified Cash Basis used for financial reporting, with the exception of adjustments for interfund loans. There are also, some differences in the classification of certain income and expenditure items that do not affect fund balances. These differences are as follows:

1. Certain expenditures for the repayment of interfund loans are classified as transfers for Oregon Budget Law. Therefore under Oregon Budget Law amounts owed to other funds are included in available budgetary fund balances. Under the modified cash basis of accounting, these interfund loan repayments are balance sheet transactions and do not affect the Statement of Revenues, Expenditures and changes in Fund Balance.
2. Certain expenditures for goods and services relating to the acquisition or improvement of assets which were budgeted as capital outlay and which are below the City's capitalization threshold have been reclassified to materials and services for the modified cash basis presentation of the governmental fund financial statements.

Other Supplementary Information

CITY OF UNION, OREGON

COMBINING STATEMENT OF ASSETS AND LIABILITIES - MODIFIED CASH BASIS

NONMAJOR SPECIAL REVENUE AND CAPITAL PROJECTS FUNDS

JUNE 30, 2009

	Ranger Station Fund	Downtown Revolving Loan Fund	Bike/ Pedestrian Path Fund	Vehicle/ Equipment Reserve Fund	Building/ Maintenance Reserve Fund	Street Improvement Reserve Fund	Union Community Trust Fund	Ambulance Replacement Fund	Totals
ASSETS									
Cash In Bank	\$ 15,761	\$ 14,600	\$ 7,235	\$ 10,043	\$ 38,401	\$ 42,640	\$ 3,538	\$ 70,000	\$ 202,218
Total Assets	<u>15,761</u>	<u>14,600</u>	<u>7,235</u>	<u>10,043</u>	<u>38,401</u>	<u>42,640</u>	<u>3,538</u>	<u>70,000</u>	<u>202,218</u>
LIABILITIES AND FUND BALANCES									
Liabilities									
Renter Security Deposit	1,255	0	0	0	0	0	0	0	1,255
Total Liabilities	<u>1,255</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,255</u>
Fund Balances (Deficit)									
Reserved for Streets	0	0	0	2,175	0	42,640	0	0	44,815
Reserved for Bike & Pedestrian Paths	0	0	7,235	0	0	0	0	0	7,235
Unreserved	14,506	14,600	0	7,868	38,401	0	3,538	70,000	148,913
Total Fund Balances	<u>14,506</u>	<u>14,600</u>	<u>7,235</u>	<u>10,043</u>	<u>38,401</u>	<u>42,640</u>	<u>3,538</u>	<u>70,000</u>	<u>200,963</u>
Total Liabilities and Fund Balance	\$ <u>15,761</u>	\$ <u>14,600</u>	\$ <u>7,235</u>	\$ <u>10,043</u>	\$ <u>38,401</u>	\$ <u>42,640</u>	\$ <u>3,538</u>	\$ <u>70,000</u>	\$ <u>202,218</u>

CITY OF UNION, OREGON

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - MODIFIED CASH BASIS - NONMAJOR SPECIAL REVENUE AND CAPITAL PROJECTS FUNDS

FOR THE YEAR ENDED JUNE 30, 2009

	Ranger Station Fund	Downtown Revolving Loan Fund	Bike/ Pedestrian Path Fund	Vehicle/ Equipment Reserve Fund	Building/ Maintenance Reserve Fund	Street Improvement Reserve Fund	Union Community Trust Fund	Ambulance Replacement Fund	Totals
REVENUES:									
Rental Income	\$ 35,076	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 35,076
Miscellaneous Revenue	99	0	0	0	0	0	0	0	99
Loan Repayment Income	0	2,200	0	0	0	0	0	0	2,200
Grants	0	0	0	0	5,321	0	0	0	5,321
Interest Income	0	321	154	242	721	361	85	0	1,885
Total Revenues	35,175	2,521	154	242	6,042	361	85	0	44,581
EXPENDITURES:									
Personal Services	9,265	0	0	0	0	0	0	0	9,265
Materials and Services	15,052	0	0	0	1,348	0	0	0	16,400
Capital Outlay	0	0	0	0	10,042	0	0	0	10,042
Total Expenditures	24,317	0	0	0	11,390	0	0	0	35,707
Excess of Revenues Over (Under) Expenditures	10,858	2,521	154	242	(5,348)	361	85	0	8,874
OTHER FINANCING SOURCES (USES):									
Operating Transfers In	0	0	1,000	0	11,000	33,090	0	0	45,090
Net Change in Fund Balances	10,858	2,521	1,154	242	5,652	33,451	85	0	53,964
FUND BALANCES - BEGINNING	3,648	12,079	6,081	9,801	32,748	9,189	3,453	70,000	146,999
FUND BALANCES - ENDING	\$ 14,506	\$ 14,600	\$ 7,235	\$ 10,043	\$ 38,401	\$ 42,640	\$ 3,538	\$ 70,000	\$ 200,963

CITY OF UNION, OREGON

BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS

RANGER STATION FUND

FOR THE YEAR ENDED JUNE 30, 2009

	BUDGET		ACTUAL		
	Original Budget	Final Budget	Budget Basis	Adjustment	Modified Cash Basis
REVENUES:					
Rental Income	\$ 33,267	\$ 33,267	\$ 35,076	\$ 0	\$ 35,076
Miscellaneous Revenue	100	100	99	0	99
Interest Income	200	200	0	0	0
Total Revenues	<u>33,567</u>	<u>33,567</u>	<u>35,175</u>	<u>0</u>	<u>35,175</u>
EXPENDITURES:					
Personal Services	9,201	9,201	9,265	0	9,265
Materials/Services	16,450	18,450	15,052	0	15,052
Capital Outlay	4,000	4,000	0	0	0
Contingency	2,500	500	0	0	0
Total Expenditures	<u>32,151</u>	<u>32,151</u>	<u>24,317</u>	<u>0</u>	<u>24,317</u>
Excess of Revenues Over (Under) Expenditures	1,416	1,416	10,858	0	10,858
FUND BALANCE - BEGINNING	<u>500</u>	<u>500</u>	<u>3,648</u>	<u>0</u>	<u>3,648</u>
FUND BALANCE - ENDING	<u>\$ 1,916</u>	<u>\$ 1,916</u>	<u>\$ 14,506</u>	<u>\$ 0</u>	<u>\$ 14,506</u>

CITY OF UNION, OREGON

BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS

DOWNTOWN REVOLVING LOAN FUND

FOR THE YEAR ENDED JUNE 30, 2009

	BUDGET		ACTUAL		
	Original Budget	Final Budget	Budget Basis	Adjustment	Modified Cash Basis
REVENUES:					
Loan Repayment Income	\$ 2,500	\$ 2,500	\$ 2,200	0	\$ 2,200
Interest Income	250	250	321	0	321
Total Revenues	2,750	2,750	2,521	0	2,521
EXPENDITURES:					
Materials/Services	13,950	13,950	0	0	0
Net Changes in Fund Balance	(11,200)	(11,200)	2,521	0	2,521
FUND BALANCE - BEGINNING	11,200	11,200	12,079	0	12,079
FUND BALANCE - ENDING	\$ 0	\$ 0	\$ 14,600	\$ 0	\$ 14,600

CITY OF UNION, OREGON

BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS

BIKE/PEDESTRIAN PATH FUND

FOR THE YEAR ENDED JUNE 30, 2009

	BUDGET		ACTUAL		
	Original Budget	Final Budget	Budget Basis	Adjustment	Modified Cash Basis
REVENUES:					
Interest Income	200	200	154	0	154
Excess of Revenues Over (Under) Expenditures	200	200	154	0	154
OTHER FINANCING (USES):					
Operating Transfers - In	1,000	1,000	1,000	0	1,000
Net Changes in Fund Balance	1,200	1,200	1,154	0	1,154
FUND BALANCE - BEGINNING	<u>6,050</u>	<u>6,050</u>	<u>6,081</u>	<u>0</u>	<u>6,081</u>
FUND BALANCE - ENDING	<u>7,250</u>	<u>7,250</u>	<u>7,235</u>	<u>0</u>	<u>7,235</u>

CITY OF UNION, OREGON

BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS

VEHICLE/EQUIPMENT RESERVE FUND

FOR THE YEAR ENDED JUNE 30, 2009

	BUDGET		ACTUAL		
	Original Budget	Final Budget	Budget Basis	Adjustment	Modified Cash Basis
REVENUES:					
Interest Income	\$ 500	\$ 500	\$ 242	\$ 0	\$ 242
Net Changes in Fund Balance	500	500	242	0	242
FUND BALANCE - BEGINNING	<u>8,000</u>	<u>8,000</u>	<u>9,801</u>	<u>0</u>	<u>9,801</u>
FUND BALANCE - ENDING	<u>\$ 8,500</u>	<u>\$ 8,500</u>	<u>\$ 10,043</u>	<u>\$ 0</u>	<u>\$ 10,043</u>

CITY OF UNION, OREGON

BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS

BUILDING/MAINTENANCE RESERVE FUND

FOR THE YEAR ENDED JUNE 30, 2009

	BUDGET		ACTUAL		
	Original Budget	Final Budget	Budget Basis	Adjustment	Modified Cash Basis
REVENUES:					
Grants	\$ 11,800	\$ 11,800	\$ 5,321	\$ 0	\$ 5,321
Interest Income	600	600	721	0	721
Total Revenues	12,400	12,400	6,042	0	6,042
EXPENDITURES:					
Personal Services	0	0	0	0	0
Materials/Services	0	0	0	1,348	1,348
Capital Outlay	21,800	21,800	11,390	(1,348)	10,042
Total Expenditures	21,800	21,800	11,390	0	11,390
Excess of Revenues Over (Under) Expenditures	(9,400)	(9,400)	(5,348)	0	(5,348)
OTHER FINANCING (USES):					
Operating Transfers - In	24,282	24,282	11,000	0	11,000
Net Changes in Fund Balance	14,882	14,882	5,652	0	5,652
FUND BALANCE - BEGINNING	32,000	32,000	32,748	0	32,748
FUND BALANCE - ENDING	\$ 46,882	\$ 46,882	\$ 38,401	\$ 0	\$ 38,401

CITY OF UNION, OREGON

BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS

STREET IMPROVEMENT RESERVE FUND

FOR THE YEAR ENDED JUNE 30, 2009

	BUDGET		ACTUAL		
	Original Budget	Final Budget	Budget Basis	Adjustment	Modified Cash Basis
REVENUES:					
Interest Income	\$ 50	\$ 50	\$ 361	\$ 0	\$ 361
OTHER FINANCING (USES):					
Operating Transfers - In	33,090	33,090	33,090	0	33,090
Net Changes in Fund Balance	33,140	33,140	33,451	0	33,451
FUND BALANCE - BEGINNING	9,120	9,120	9,189	0	9,189
FUND BALANCE - ENDING	\$ 42,260	\$ 42,260	\$ 42,640	\$ 0	\$ 42,640

CITY OF UNION, OREGON

BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS

UNION COMMUNITY TRUST FUND

FOR THE YEAR ENDED JUNE 30, 2009

	BUDGET		ACTUAL		
	Original Budget	Final Budget	Budget Basis	Adjustment	Modified Cash Basis
REVENUES:					
Interest Income	104	104	85	0	85
Net Changes in Fund Balance	104	104	85	0	85
FUND BALANCE - BEGINNING	3,396	3,396	3,453	0	3,453
FUND BALANCE - ENDING	3,500	3,500	3,538	0	3,538

CITY OF UNION, OREGON

BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS

AMBULANCE REPLACEMENT FUND

FOR THE YEAR ENDED JUNE 30, 2009

	BUDGET		ACTUAL		
	Original Budget	Final Budget	Budget Basis	Adjustment	Modified Cash Basis
REVENUES:					
Interest Income	\$ 1,200	\$ 1,200	\$ 0	\$ 0	\$ 0
OTHER FINANCING (USES):					
Operating Transfers - In	70,000	70,000	0	0	0
Operating Transfers - (Out)	0	0	0	0	0
Net Changes in Fund Balance	71,200	71,200	0	0	0
FUND BALANCE - BEGINNING	0	0	70,000	0	70,000
FUND BALANCE - ENDING	\$ 71,200	\$ 71,200	\$ 70,000	\$ 0	\$ 70,000

CITY OF UNION, OREGON

BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS

WATER/SEWER UTILITY FUND (a)

FOR THE YEAR ENDED JUNE 30, 2009

	BUDGET		ACTUAL		
	Original Budget	Final Budget	Budget Basis	Adjustments	Modified Cash Basis
REVENUES:					
Water-User Fees	\$ 249,000	\$ 249,000	\$ 281,089	\$ 0	\$ 281,089
Sewer-User Fees	381,294	381,294	416,670	0	416,670
Water Installations	3,000	3,000	2,232	0	2,232
Sewer Installations	2,000	2,000	0	0	0
Property Tax Revenues	0	0	0	61,383	61,383
Interest Income	0	0	8,018	12,463	20,481
OWRD Grant	0	10,000	5,000	0	5,000
Miscellaneous	4,500	4,500	13,654	8,229	21,883
Total Revenues	639,794	649,794	726,663	82,075	808,738
EXPENSES:					
Personal Services:					
Water Department	101,629	121,629	121,792	0	121,792
Sewer Department	126,638	126,638	102,921	0	102,921
Total Personal Services	228,267	248,267	224,714	0	224,714
Materials and Services:					
Water Department	114,450	114,450	100,545	4,718	105,263
Sewer Department	126,050	126,050	101,478	6,816	108,294
Total Materials and Services	240,500	240,500	202,023	11,534	213,557
Capital Outlay:					
Water Department	22,000	32,000	14,718	(14,718)	0
Total Capital Outlay	22,000	32,000	14,718	(14,718)	0
Debt Service:					
Interest	0	0	0	115,641	115,641
Total Debt Service	0	0	0	115,641	115,641
Depreciation	0	0	0	224,635	224,635
Contingency	37,896	17,896	0	0	0
Total Expenses	528,663	538,663	441,455	337,092	778,547
Excess of Revenues Over (Under) Expenditures	111,131	111,131	285,208	(255,017)	30,191
Other Financing Sources (Uses):					
Operating Transfers In	0	0	0	233,995	233,995
Operating Transfers (Out)	(233,131)	(233,131)	(233,131)	(34,090)	(267,221)
Change in Fund Balance	(122,000)	(122,000)	52,077	(55,112)	(3,035)
FUND BALANCE - BEGINNING	132,000	132,000	220,449	3,352,849	3,573,298
FUND BALANCE - ENDING	\$ 10,000	\$ 10,000	\$ 272,527	\$ 3,297,737	\$ 3,570,264

(a) The budgetary funds, Water Debt Service, Sewer Debt Service, Water Reserve, Sewer Reserve, Water Repair, Sewer Repair, and Water New Growth Funds, are combined with the Water/Sewer Utility Fund for the modified cash basis presentation of the financial statements.

CITY OF UNION, OREGON

BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS

WATER DEBT SERVICE FUND (b)

FOR THE YEAR ENDED JUNE 30, 2009

	BUDGET		ACTUAL		
	Original Budget	Final Budget	Budget Basis	Adjustments	Modified Cash Basis
REVENUES:					
Property Tax Revenue	\$ 50,500	\$ 50,500	\$ 49,363	\$ (49,363)	\$ 0
Interest Income	1,700	1,700	2,623	(2,623)	0
Total Revenues	52,200	52,200	51,986	(51,986)	0
EXPENSES:					
Debt Service:					
Interest Paid	4,712	4,712	4,291	(4,291)	0
Principal Paid	44,288	44,288	44,709	(44,709)	0
Total Debt Service	49,000	49,000	49,000	(49,000)	0
Total Expenses	49,000	49,000	49,000	(49,000)	0
Change in Fund Balance	3,200	3,200	2,986	(2,986)	0
FUND BALANCE - BEGINNING	24,000	24,000	78,887	(78,887)	0
FUND BALANCE - ENDING	\$ 27,200	\$ 27,200	\$ 81,873	\$ (81,873)	\$ 0

(b) The budgetary funds, Water Debt Service, Sewer Debt Service, Water Reserve, Sewer Reserve, Water Repair, Sewer Repair, and Water New Growth Funds, are combined with the Water/Sewer Utility Fund for the modified cash basis presentation of the financial statements.

CITY OF UNION, OREGON

BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS

SEWER DEBT SERVICE FUND (b)

FOR THE YEAR ENDED JUNE 30, 2009

	BUDGET		ACTUAL		
	Original Budget	Final Budget	Budget Basis	Adjustments	Modified Cash Basis
REVENUES:					
Property Tax Revenue	\$ 12,010	\$ 12,010	\$ 12,020	\$ (12,020)	\$ 0
Interest Income	2,500	2,500	2,553	(2,553)	0
Total Revenues	<u>14,510</u>	<u>14,510</u>	<u>14,573</u>	<u>(14,573)</u>	<u>0</u>
EXPENSES:					
Debt Service:					
Interest Paid	109,435	109,435	109,435	(109,435)	0
Principal Paid	45,463	45,463	45,464	(45,464)	0
Total Expenses	<u>154,898</u>	<u>154,898</u>	<u>154,899</u>	<u>(154,899)</u>	<u>0</u>
Operating Income (Loss)	<u>(140,388)</u>	<u>(140,388)</u>	<u>(140,326)</u>	<u>140,326</u>	<u>0</u>
OTHER FINANCING SOURCES (USES):					
Operating Transfers In	144,000	144,000	144,000	(144,000)	0
Change in Fund Balance	3,612	3,612	3,674	(3,674)	0
FUND BALANCE - BEGINNING	<u>76,900</u>	<u>76,900</u>	<u>149,833</u>	<u>(149,833)</u>	<u>0</u>
FUND BALANCE - ENDING	<u>\$ 80,512</u>	<u>\$ 80,512</u>	<u>\$ 153,507</u>	<u>\$ (153,507)</u>	<u>\$ 0</u>

(b) The budgetary funds, Water Debt Service, Sewer Debt Service, Water Reserve, Sewer Reserve, Water Repair, Sewer Repair, and Water New Growth Funds, are combined with the Water/Sewer Utility Fund for the modified cash basis presentation of the financial statements.

CITY OF UNION, OREGON

BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS

WATER RESERVE FUND (b)

FOR THE YEAR ENDED JUNE 30, 2009

	BUDGET		ACTUAL		Modified Cash Basis
	Original Budget	Final Budget	Budget Basis	Adjustment	
REVENUES:					
Water Connection fees	\$ 1,200	\$ 1,200	\$ 0	\$ 0	\$ 0
Interest	3,000	3,000	4,696	(4,696)	0
Total Revenues	4,200	4,200	4,696	(4,696)	0
EXPENSES:					
Materials & Services	10,000	10,000	0	0	0
Capital Outlay	5,000	5,000	0	0	0
Contingency	2,000	2,000	0	0	0
Total Expenditures	17,000	17,000	0	0	0
Excess of Revenues Over (Under) Expenditures	(12,800)	(12,800)	4,696	(4,696)	0
OTHER FINANCING SOURCES (USES):					
Interfund Loan Transfers In	5,372	5,372	5,372	(5,372)	0
Operating Transfers In	89,131	89,131	89,131	(89,131)	0
Operating Transfers (Out)	(47,372)	(47,372)	(34,090)	34,090	0
Total Transfers	47,131	47,131	60,413	(60,413)	0
Change in Fund Balance	34,331	34,331	65,109	(65,109)	0
FUND BALANCE - BEGINNING	<u>171,250</u>	<u>171,250</u>	<u>180,222</u>	<u>(180,222)</u>	<u>0</u>
FUND BALANCE - ENDING	<u>\$ 205,581</u>	<u>\$ 205,581</u>	<u>\$ 245,331</u>	<u>\$ (245,331)</u>	<u>\$ 0</u>

(b) The budgetary funds, Water Debt Service, Sewer Debt Service, Water Reserve, Sewer Reserve, Water Repair, Sewer Repair, and Water New Growth Funds, are combined with the Water/Sewer Utility Fund for the modified cash basis presentation of the financial statements.

CITY OF UNION, OREGON

BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS

SEWER RESERVE FUND (b)

FOR THE YEAR ENDED JUNE 30, 2009

	BUDGET		ACTUAL		
	Original Budget	Final Budget	Budget Basis	Adjustment	Modified Cash Basis
REVENUES:					
Interest	2,000	2,000	2,591	(2,591)	0
Total Revenues	2,000	2,000	2,591	(2,591)	0
EXPENSES:					
Material & Services	20,000	20,000	6,816	(6,816)	0
Capital Outlay	5,000	5,000	0	0	0
Contingency	2,500	2,500	0	0	0
Total Expenditures	27,500	27,500	6,816	(6,816)	0
Excess of Revenues Over (Under) Expenditures	(25,500)	(25,500)	(4,225)	4,225	0
OTHER FINANCING SOURCES (USES):					
Interfund Loan Transfers In	8,060	8,060	8,492	(8,492)	0
Operating Transfers In	432	432	432	(432)	0
Total Other Financing Sources	8,492	8,492	8,924	(8,924)	0
Change in Fund Balance	(17,008)	(17,008)	4,699	(4,699)	0
FUND BALANCE - BEGINNING	127,500	127,500	105,483	(105,483)	0
FUND BALANCE - ENDING	\$ 110,492	\$ 110,492	\$ 110,182	\$ (110,182)	\$ 0

(b) The budgetary funds, Water Debt Service, Sewer Debt Service, Water Reserve, Sewer Reserve, Water Repair, Sewer Repair, and Water New Growth Funds, are combined with the Water/Sewer Utility Fund for the modified cash basis presentation of the financial statements.

CITY OF UNION, OREGON

BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS

WATER REPAIR FUND (b)

FOR THE YEAR ENDED JUNE 30, 2009

	BUDGET		ACTUAL		
	Original Budget	Final Budget	Budget Basis	Adjustments	Modified Cash Basis
REVENUES:					
Interest Income	250	250	0	0	0
System Development Charge	10,755	10,755	348	(348)	0
Total Revenues	11,005	11,005	348	(348)	0
Change in Fund Balance	11,005	11,005	348	(348)	0
FUND BALANCE - BEGINNING	3,585	3,585	4,232	(4,232)	0
FUND BALANCE - ENDING	\$ 14,590	\$ 14,590	\$ 4,580	\$ (4,580)	\$ 0

(b) The budgetary funds, Water Debt Service, Sewer Debt Service, Water Reserve, Sewer Reserve, Water Repair, Sewer Repair, and Water New Growth Funds, are combined with the Water/Sewer Utility Fund for the modified cash basis presentation of the financial statements.

CITY OF UNION, OREGON

BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS

SEWER REPAIR FUND (b)

FOR THE YEAR ENDED JUNE 30, 2009

	BUDGET		ACTUAL		
	Original Budget	Final Budget	Budget Basis	Adjustments	Modified Cash Basis
REVENUES:					
Interest Income	75	75	0	0	0
System Development Charge	3,774	3,774	1,258	(1,258)	0
Total Revenues	3,849	3,849	1,258	(1,258)	0
Change in Fund Balance	3,849	3,849	1,258	(1,258)	0
FUND BALANCE - BEGINNING	1,258	1,258	3,155	(3,155)	0
FUND BALANCE - ENDING	\$ 5,107	\$ 5,107	\$ 4,413	\$ (4,413)	\$ 0

(b) The budgetary funds, Water Debt Service, Sewer Debt Service, Water Reserve, Sewer Reserve, Water Repair, Sewer Repair, and Water New Growth Funds, are combined with the Water/Sewer Utility Fund for the modified cash basis presentation of the financial statements.

CITY OF UNION, OREGON

BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS

WATER NEW GROWTH FUND (b)

FOR THE YEAR ENDED JUNE 30, 2009

	BUDGET		ACTUAL		
	Original Budget	Final Budget	Budget Basis	Adjustments	Modified Cash Basis
REVENUES:					
Interest Income	20	20	0	0	0
System Development Charge	1,044	1,044	6,624	(6,624)	0
Total Revenues	1,064	1,064	6,624	(6,624)	0
Change in Fund Balance	1,064	1,064	6,624	(6,624)	0
FUND BALANCE - BEGINNING	348	348	892	(892)	0
FUND BALANCE - ENDING	\$ 1,412	\$ 1,412	\$ 7,516	\$ (7,516)	\$ 0

(b) The budgetary funds, Water Debt Service, Sewer Debt Service, Water Reserve, Sewer Reserve, Water Repair, Sewer Repair, and Water New Growth Funds, are combined with the Water/Sewer Utility Fund for the modified cash basis presentation of the financial statements.

CITY OF UNION, OREGON
SCHEDULE OF TRANSACTIONS WITH COUNTY TREASURER
For the Fiscal Year Ended June 30, 2009

	<u>Totals</u>	<u>City of Union #752</u>	<u>Union Bonds #753</u>	<u>Union Local Option #767</u>
Cash on hand with County Treasurer from property taxes July 1, 2008	\$ 0	\$ 0	\$ 0	\$ 0
Treasurers' Receipts:				
Current year's taxes plus interest	159,897	100,631	59,266	0
Prior years' taxes plus interest	<u>6,065</u>	<u>3,341</u>	<u>2,117</u>	<u>607</u>
Total Property Tax Plus Interest	165,962	103,972	61,383	607
Foreclosure Revenues	415	261	154	0
Payment in Lieu of Tax	41	26	15	0
Fish & Wildlife	84	53	31	0
Bank Interest	<u>135</u>	<u>85</u>	<u>50</u>	<u>0</u>
Total Treasurers' Receipts	<u>166,637</u>	<u>104,397</u>	<u>61,633</u>	<u>607</u>
Total Available for Disbursement	<u>166,637</u>	<u>104,397</u>	<u>61,633</u>	<u>607</u>
Treasurers Disbursements:				
Turnover to City of Union	<u>166,637</u>	<u>104,397</u>	<u>61,633</u>	<u>607</u>
Cash on hand with County Treasurer from property taxes June 30, 2009	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

CITY OF UNION, OREGON
SCHEDULE OF PROPERTY TAX TRANSACTIONS BY LEVY
For the Fiscal Year Ended June 30, 2009

	Taxes Receivable July 1, 2008	Current Net Levy	Adjustments	Discounts Allowed	Taxes Collected	Taxes Receivable June 30, 2009
CITY OF UNION #752						
2007-08	\$	\$ 107,750	\$ (333)	\$ (2,705)	\$ 100,559	\$ 4,153
2006-07			(89)	0	1,876	1,650
2005-06			(73)	0	584	315
2004-05			(84)	0	271	316
2003-04			(55)	0	154	37
2002-03			(11)	0	0	16
2001-02			(10)	0	0	18
All Prior Years			(37)	0	2	49
Total Tax Transaction	\$ 6,147	\$ 107,750	\$ (692)	\$ (2,705)	103,446	\$ 7,054
Interest Collections					525	
Total Collections					<u>\$ 103,971</u>	

	Taxes Receivable July 1, 2008	Current Net Levy	Adjustments	Discounts Allowed	Taxes Collected	Taxes Receivable June 30, 2009
UNION BONDS #753						
2007-08	\$	\$ 63,459	\$ (196)	\$ (1,593)	\$ 59,224	\$ 2,446
2006-07		2,208	(54)	0	1,146	1,008
2005-06		971	(47)	0	386	538
2004-05		442	(45)	0	189	208
2003-04		164	(37)	0	102	25
2002-03		19	(8)	0	0	11
2001-02		21	(8)	0	0	13
All Prior Years		32	(16)	0	2	14
Total Tax Transaction	\$ 3,857	\$ 63,459	\$ (411)	\$ (1,593)	61,049	\$ 4,263
Interest Collections					334	
Total Collections					<u>\$ 61,383</u>	

	Taxes Receivable July 1, 2008	Current Net Levy	Adjustments	Discounts Allowed	Taxes Collected	Taxes Receivable June 30, 2009
UNION LOCAL OPTION #767						
2007-08	\$	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
2006-07			0	0	0	0
2005-06			(33)	0	264	368
2004-05			(30)	0	129	143
2003-04			(27)	0	76	19
2002-03			(6)	0	0	8
2001-02			(5)	0	0	9
All Prior Years			0	0	0	0
Total Tax Transaction	\$ 1,117	\$ 0	\$ (101)	\$ 0	469	\$ 547
Interest Collections					138	
Total Collections					<u>\$ 607</u>	

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AUDIT COMMENTS AND DISCLOSURES
REQUIRED BY THE STATE OF OREGON

Oregon Administrative Rules 162-10-000 through 162-10-330 of the Minimum Standards for Audits of Oregon Municipal Corporations, prescribed by the Secretary of State in cooperation with the Oregon State Board of Accountancy, enumerate the financial statements, schedules, comments and disclosure required in audit reports. The required statements and schedules are set forth in the preceding section of this report. Required comments and disclosures related to our examination of such statements and schedules are set forth following.

CITY OF UNION
UNION COUNTY, OREGON
AUDIT COMMENTS & DISCLOSURES
JUNE 30, 2009

1. Accounting Records:

With the exception of the fixed asset records as noted in the Independent Auditor's Report, we found the accounting records of the City to be adequate for audit.

2. Internal Accounting Control:

We have audited the financial statements, modified cash basis, of the City of Union as of and for the year ended June 30, 2009 and have issued our report thereon dated December 3, 2009

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 general purpose financial statements are free of material misstatement. Government Auditing Standards also require a separate report on internal control. Please refer to this report on page 77 of this reporting package. There was also issued a separate letter to management dated December 3, 2009.

3. Review of the City's Fund Structure:

The City should simplify its overly complex fund structure. Elimination of unnecessary funds improves the City's financial reporting and reduces the number of interfund transactions. Excessive interfund transactions make the City's financial reporting more difficult to understand and also make it harder to comply with local budget law. We would suggest you look toward consolidating the Water Reserve, Sewer Reserve, Water Repair, Sewer Repair, and Water New Growth Funds into the Water/Sewer Utility Fund. The City should also explore combining the Water Debt Service fund and the Sewer Debt Service Fund into the Water/Sewer Utility Fund unless there is a loan covenant with the bondholder or the consolidation is unlawful due to the property tax levying authority these debt service funds have. The Water/Sewer Utility Fund is an enterprise fund where in essence the City is running a business. The City should use business type accounting in this fund and as such the entire business should be accounted for in one set of books (one fund) instead of eight. The same purpose for having eight funds can be accomplished with designated fund balances in one fund.

We would be happy to review this recommendation with you and assist in the implementation.

4. Potential Accounting System Improvements:

A. The changes in staffing assignments during the fiscal year underscores the need for the City to develop written office procedures to provide consistent accounting practices in the event of staff turnover and help train new staff when turnover does occur.

1. The manual should be divided into sections, such as revenues, disbursements, payroll and job descriptions.

CITY OF UNION
UNION COUNTY, OREGON
AUDIT COMMENTS & DISCLOSURES
JUNE 30, 2009

4. Potential Accounting System Improvements, Continued:

2. Job descriptions should be detailed enough to ensure that important processes are not omitted when staff turnover does occur. As an example, the job description for the bookkeeper should include a listing of the duties needed to be performed such as monthly general ledger posting and reconciliation with related subsidiary accounts, which reports are to be presented to City Council, etc.

B. The City's current travel training and credit card use policy should be expanded. This policy should include written pre-approval of travel and training expenditures, documentation necessary to support business purpose for the travel, documentation required to substantiate charges to the city credit cards and procedures for reimbursing an employee. At a minimum the travel policy should provide for management preapproval of the travel and all credit card usage should be documented by receipt signed by the card user as well as a description of business purpose for the expenditure. All expenditures we examined appeared to be valid City expenditures.

5. Budgeting, Tax Levies and Legal Compliance:

A. Budgeting:

The preparation, adoption and execution of the City budget and tax levies for fiscal year 2008-09 appears to have complied with ORS 294 and other appropriate Oregon laws and regulations except as follows:

- (1) First and second preceding year beginning fund balance does not agree with the audited financial statements in the General, Water Reserve, Sewer Reserve, Water Debt Service and Sewer Debt Service Funds.
- (2) On the detail budget document a transfer into the Ambulance Equipment Reserve Fund has no corresponding budgeted transfer out of another fund. The budget as published and the budget adopting resolution do not show this transfer in.
- (3) The history in the budget summary published in the paper contained erroneous information in the last year actual and this year adopted budget columns. The correct information had been forwarded to the paper and a fax of the final version of the budget summary was received by the City for approval before publication. The final copy of the budget summary was correct before publication but the paper inadvertently published the earlier incorrect version of the budget summary.

The preparation, adoption and execution of the City budget and tax levies for fiscal year 2009-10 appears to have complied with ORS. 294 and other appropriate Oregon laws and regulations except as follows:

CITY OF UNION
 UNION COUNTY, OREGON
 AUDIT COMMENTS & DISCLOSURES, CONTINUED
 JUNE 30, 2009

5. Budgeting, Tax Levies and Legal Compliance, Continued:

- (1) Resolution 2009-16 adopting the 2009-2010 budget does not list appropriations for all of the funds that have budgeted expenditures in the detail budget. The funds excluded from the resolution are the Water Repair, Sewer Repair, Water New Growth, Vehicle/Equipment Reserve, Street Improvement Reserve, Ambulance Replacement Reserve, and Union Community Trust Funds. There were also mathematical errors in the resolution.
- (2) The published budget summary contained several errors. The most significant error was the levy for bonded debt obligations was not reported correctly on the LB-3 and was not carried forward to the LB-1.
- (3) In the detail budget document there were errors in the first and second preceding years actual beginning fund balance in the General, Water Debt Service, Sewer Debt Service, Water Reserve and Sewer Reserve Funds.
- (4) In the General Fund there are transfers budgeted to be made to the Water Reserve and Sewer Reserve Funds where there are no corresponding transfers budgeted to be received in those funds.

We would be happy to review your proposed budgets and publications for compliance with laws and regulations during the budget process.

B. Expenditure Exceeding Legal Appropriations:

A budget adjusting resolution was approved by the City Council on June 29, 2009. This was after some expenditures had been made in excess of appropriations available at the time of the expenditure. This is in violation of ORS 294.435.

For the year ended June 30, 2009, the City had one instance where expenditures exceeded appropriations at the legal level of control in individual funds.

<i>Fund</i>	<i>Object Category</i>	<i>Expenditures Exceeding Appropriations</i>
Ranger Station Fund	Personal Services	\$ 64

These expenditures are at variance with ORS 294.435, which states, "...no greater expenditure of public money shall be made for a specific purpose than the amount appropriated therefore..".

CITY OF UNION
UNION COUNTY, OREGON
AUDIT COMMENTS & DISCLOSURES
JUNE 30, 2009

5. Budgeting, Tax Levies and Legal Compliance, Continued:

C. Tax Levies:

The City's 2008-2009 and 2009-2010 tax levies were made in compliance with Article XI, Section 11, or the Oregon Constitution.

6. Collateral for Deposits:

The statute governing required collateral for deposits, ORS 295 was amended effective July 1, 2008 which rescinded the collateralization requirements for individual municipalities and replaced them with a program where banks are required to pledge collateral to the state treasurer to cover municipal deposits. The requirement for the City is that any deposits in excess of the FDIC insurance limits must be at a bank approved by the Oregon State Treasurer. The City was in compliance with these provisions during the 2008-2009 fiscal year.

7. Indebtedness:

The bonded debt of the City is in compliance with the limitations imposed by ORS 223.295 and 287.004 and the City Charter.

8. Insurance and Fidelity Bond Coverage:

We have reviewed the City's insurance and fidelity bond coverage at June 30, 2009. We noted no matters which indicated such policies were not in force or not in compliance with any legal requirements relating to insurance coverage. We are not trained to comment on the adequacy of the insurance policies covering City owned property at June 30, 2009. We suggest you consult regularly with your insurance counsel regarding these matters.

9. Investments:

The City complied with Oregon legal requirements relating to the investment of monies outlined in ORS 294.035 and OAR 162-10-300.

10. Public Contracting and Purchasing:

We noted no instances of non compliance with ORS 279 in regard to public contracts and purchasing.

11. Programs Funded from Outside Sources:

We reviewed and tested, to the extent deemed appropriate, transactions and reports of the federal and state programs in which the City participates. We did not consider that the scope of our audit engagement required us to make a completed audit of each project. Our audit opinion on the City's general purpose financial statements does not cover each individual grant. Grants were audited on a test basis only. Each grant is subject to audit by the grantor agency and any adjustments may become a liability of the appropriate fund.

CITY OF UNION
UNION COUNTY, OREGON
AUDIT COMMENTS & DISCLOSURES
JUNE 30, 2009

12. Schedule of Accountability for Independently Elected Officials:

None of the City of Union's independently elected officials were responsible for collecting or receiving money in the operation of the City for the year ended June 30, 2009.

13. Highway Funds:

The City appears to be in compliance with legal requirements, as contained in Article IX, section 3a of the Oregon Constitution, pertaining to the use of revenue from taxes on motor vehicle fuel, and in compliance with statutory requirements pertaining to the use of road funds as contained in ORS 294, 368, and 373 for the year ended June 30, 2009,

Guyer & Associates

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Robert M. Burgess
Megan R. Adams

David F. Lindley
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REPORT ON 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

December 3, 2009

To the Mayor and Councilors
City of Union, Oregon

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, Oregon, as of and for the year ended June 30, 2009, which collectively comprise the City of Union, Oregon's basic financial statements and have issued our report thereon dated December 3, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United State 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 of Union, Oregon's internal control over financial reporting as a basis in designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing and opinion on the effectiveness of the City of Union, Oregon's internal control over financial reporting. Accordingly, we do not express and opinion on the City of Union, Oregon's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Union, Oregon's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Union, Oregon's financial statements that is more than inconsequential will not be prevented or detected by the City of of Union, Oregon's internal control. We consider the deficiency described in the accompanying schedule of findings and responses as item 2009-1 to be a significant deficiency in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is a material weakness.


Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Union, Oregon's financial statements are free of material misstatement, we performed tests of the City's 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 did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to the management of the City of Union, Oregon, in a separate letter dated December 3, 2009.

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

This report is intended for the information and use of management, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



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CITY OF UNION, OREGON
SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended June 30, 2009

FINDINGS:

2009-1 During the fiscal year under audit the City Administrator was replaced by the Assistant City Administrator, and duty assignments were reassigned in the administrative and bookkeeping staff. The City was also short staffed in the administrative department until an additional staff member could be hired. These changes resulted in a lack of continuity in bookkeeping and accounting functions as well as a breakdown in the separation of duties required for adequate internal control. Each staff member has access to all of the modules in the accounting software, which also contributes to a lack of segregation of duties.

RESPONSES:

2009-1 During the fiscal year under audit after the City Administrator was replaced, City management evaluated the internal control of the City's financial system and staff assignments. The former Water & Sewer Clerk was promoted to Office Manager and two part time staff were hired to handle the duties of Water & Sewer Clerk. City management has maintained the internal control steps requiring mayoral or city councilor approval of all disbursements before they are made including review of invoices prior to check preparation, and signing of checks. Other internal control improvements are being investigated.

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