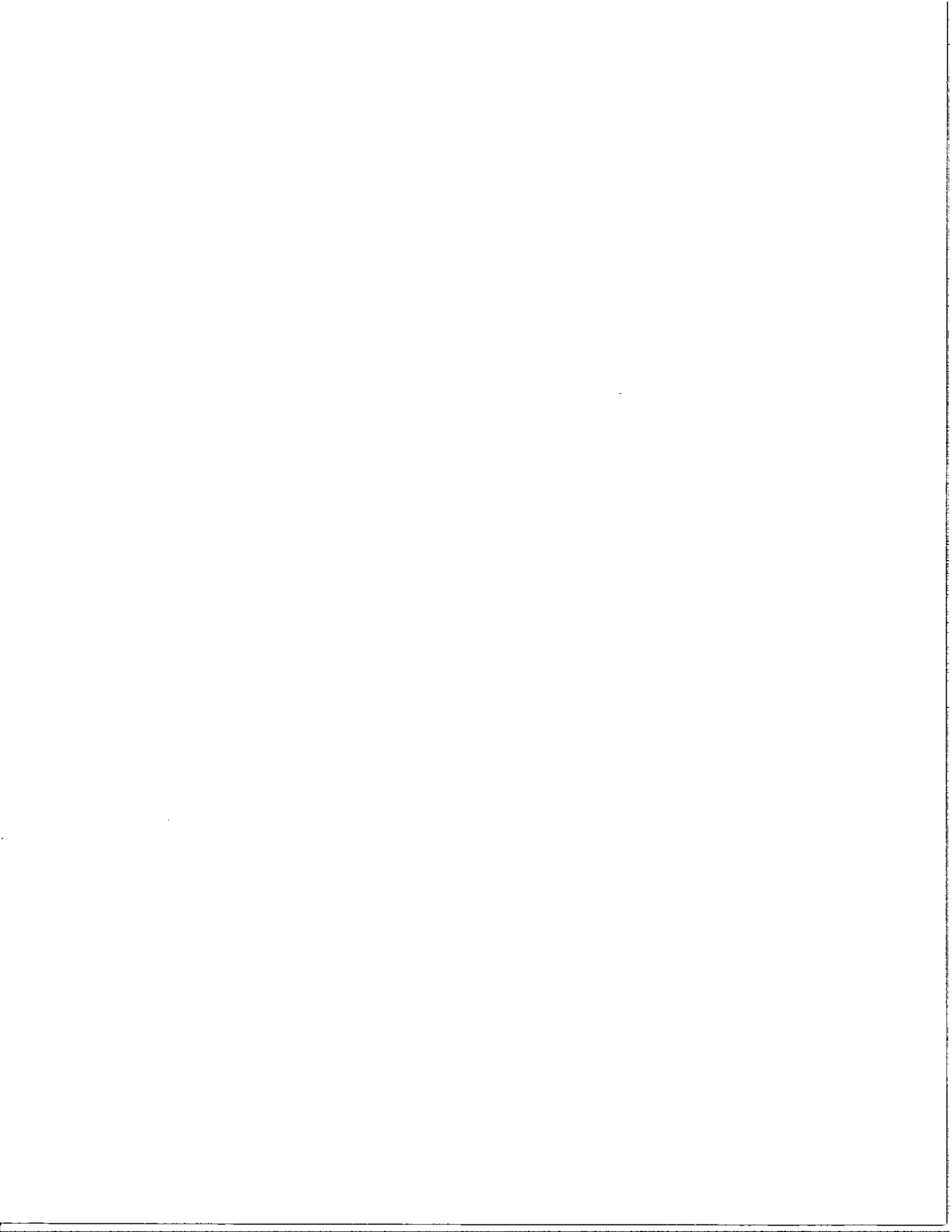


**CITY OF UNION
UNION COUNTY, OREGON
AUDIT REPORT**

For the Fiscal Year Ended June 30, 2010



CITY OF UNION
ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2010

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CITY OF UNION
ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2010

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

ELECTED MAYOR AND CITY COUNCIL AT JUNE 30, 2010

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, 2010

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

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

Megan R. Adams

Jacob J. Collier

Robert C. Gaslin

October 11, 2010

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, 2010, 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.

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.

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.

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, 2010 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.

2790 Main Street
Baker City, OR 97814
541-523-4471
541-523-3340 fax

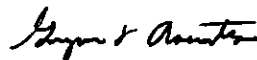
Members of
American Institute of Certified Public Accountants
Oregon Society of Certified Public Accountants
visit us at www.glbm.net

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La Grande, OR 97850
541-963-6009
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In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2010, 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 15 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, 2010**

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, 2010, 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 revenues exceeded total expenditures, on the modified cash basis of accounting, by \$191,632 for the year.

The City's General Fund ended the year with a fund balance of \$149,617.

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, 2010

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, 2010

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 12. 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, 2010**

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 \$4.8 million in fiscal year 2010. The table below is a comparison of ending net assets for the years ending June 30, 2010 and 2009 respectively.

	Governmental Activities		Business-Type Activities		Totals	
	2009-2010	2008-2009	2009-2010	2008-2009	2009-2010	2008-2009
Current Assets	\$ 372,513	\$ 322,532	\$ 1,016,888	\$ 913,993	\$ 1,389,401	\$ 1,236,525
Capital Assets	815,051	719,513	5,078,148	5,221,535	5,893,199	5,941,048
Total Assets	1,187,564	1,042,045	6,095,036	6,135,528	7,282,600	7,177,573
Long-term debt outstanding	0	0	2,454,873	2,543,802	2,454,873	2,543,802
Other liabilities	1,255	1,255	23,786	21,462	25,041	22,717
Total Liabilities	1,255	1,255	2,478,659	2,565,264	2,479,914	2,566,519
Net Assets:						
Invested in capital assets, net of related debt	815,051	719,513	2,623,275	2,677,734	3,438,326	3,397,247
Restricted and Reserved	108,602	94,971	187,478	144,169	296,080	239,140
Unrestricted, Unreserved	262,656	226,306	805,623	748,361	1,068,279	974,667
Total Net Assets	\$ 1,186,309	\$ 1,040,790	\$ 3,616,377	\$ 3,570,264	\$ 4,802,686	\$ 4,611,054

Net assets of the City's government activities as of June 30, 2010 are \$1.18 million an increase of .14 million over the previous years balance of \$1.041 million. However, \$0.91 million and \$0.81 million of those net assets at June 30, 2010 and 2009 respectively are either restricted as to the purposes they can be used for or are invested in capital assets (buildings, roads, etc.). Unrestricted net assets shown are \$0.26 million at June 30, 2010, up \$0.04 million the previous year.

CITY OF UNION, OREGON
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
June 30, 2010

Changes in Net Assets—Modified Cash Basis

For the years ended June 30, 2010 and 2009, changes in net assets of the primary government (resulting from modified cash basis transactions) were as follows:

	Governmental Activities		Business-Type Activities		Totals	
	2009-2010	2008-2009	2009-2010	2008-2009	2009-2010	2008-2009
Revenues	\$ 649,071	\$ 482,805	\$ 834,993	\$ 808,738	\$ 1,484,064	\$ 1,291,543
Expenses	512,723	517,439	779,709	778,547	1,292,432	1,295,986
Excess(deficiency) before transfers	136,348	(34,634)	55,284	30,191	191,632	(4,443)
Transfers	9,171	33,226	(9,171)	(33,226)	-	-
Change in net assets	\$ 145,519	\$ (1,408)	\$ 46,113	\$ (3,035)	\$ 191,632	\$ (4,443)

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, 2010, total expenses for governmental activities, resulting from modified cash basis transactions, amounted to \$512,723. Of these total expenses, taxpayers and other general revenues funded \$132,401 while those directly benefitting from the program funded \$185,645 from charges for services, \$169,677 from operating grants and other contributions, and \$25,000 from capital grants.

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 expenses of \$47,724. This means that the Water/Sewer function produced less revenues, than the cost to operate it. Property tax revenue of \$61,311 dedicated to water and sewer bond repayment as well as interest earnings and miscellaneous income made up for this deficit.

CITY OF UNION, OREGON
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
June 30, 2010

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, 2010, General Fund expenditures were \$96,440 under final appropriations, and actual resources available for expenditure were \$12,061 over the final budgeted amount.

General Fund Revenues:

All but three revenue sources appear to be on target. The three sources the City is watching closely are telephone and natural gas franchise fees along with state shared revenues. Neither of these should come to you as a surprise, except for maybe natural gas. As for telephone franchise fees more and more people are switching from land lines to cellular phones and, as a result, less revenues. The League of Oregon Cities is continuing to track telecommunications and report to cities of what the future holds for these funds. The State is threatening to reduce State Shared Revenues to Oregon cities. Once again LOC has put this issue on a list of priorities for when the legislation meets in January. LOC will not be asking for additional funds for cities, on the contrary, they will request that they not take any further funding away from Oregon cities. Together telephone and natural gas franchise fees came in around 80% and State shared revenues came in around 95%. I foresee both revenue sources continuing to decline. Council has started to address possible future alternative revenue sources for the General Fund.

General Fund Expenditures:

Getting down to the hard facts, the General Fund is feeling the heat of rising cost and diminishing revenues. Fortunately, City staff was able to keep the bulk of expenditures below what was budgeted. The Police Department was 3% over expended for the reason the County's contract was higher than anticipated for services. Moreover changes will need to be made, or services cut in order to continue to balance the General Fund. The two that are under the most pressure are the Park and Library Departments. These departments are always the first to be cut, and the most difficult because of the value and enjoyment they provide to the community.

July 1st the City renewed our contract with Union County Sheriff's office and we added animal control for the next three years for both. The City decided to close the Transfer Station as of July 1st. This department was costing the city more than the revenues coming in.

One of the main problems today is State mandates. Each and every department struggles to keep on top of what is required; permits, safety, fees and reports. These are quite consuming duties when you are working with a small staff.

The City will continue to watch how much money is being spent and at what rate.

Capital Assets—Modified Cash Basis

At June 30, 2010, the City had \$5,893,199 invested in capital assets, net of depreciation, including fire and ambulance equipment, buildings, park and pool facilities, water lines and sewer lines.

CITY OF UNION, OREGON
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
June 30, 2010

Long-Term Debt-Modified Cash Basis

At June 30, 2010, the City had \$2,454,873 in long-term debt arising from modified cash basis transactions.

Economic Factors and Next Year's Budget and Rates

As we enter into the 2010-2011 fiscal year the City will continue to as in previous years, manage expenditures carefully. City employees will make best use of their time and resources. In addition, employees will continue to keep the City expenditures at a 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.

Policies will continue to be reviewed and developed, to better City operations. At the Auditors request, management will streamline job responsibilities between office staff and the bookkeeper. These responsibilities will be made into a reference manual. An updated employee hand book is greatly needed, which is currently under review. New items will include cellular phone usage, credit card practices and a reimbursement procedure. The handbook will integrate UNION Contract language to guide employees currently not working under the contract. There is a likelihood that UNION negotiations will start sometime around the first of the 2011.

The 2010-2011 budget was adopted with six full-time and one part-time employee, along with a cleaning person, code enforcement officer and a bookkeeper. During last year the City utilized several community service persons, Title 5 workers and is currently employing, at no cost to the city, an individual from TEC (Training and Employment Consortium). This person is working at the Waste Water Treatment Plant, and we plan to cross train this person in labs so full time personnel can take time off from work. The front office continues to operate with 2.5 people.

While many communities in Oregon are struggling financially, the City of Union has always struggled, and for that reason, having to struggle a little more hasn't affect current operations. Although, based on current numbers, the City of Union will need to make tough decisions about service levels and infrastructure needs and wants. The City Council has started these talks and will be encouraging residents to be involved.

GENERAL FUND

Within the General Fund, there have been historically 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.

Within the Administration Department, expenditures 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 previous years. As a result of the 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 renewed in July 2010. In conjunction, Union County will provide animal control. In the 2009-2010 year, inventory from the police department was sold, and guns were put on consignment. In addition there are still several items that have little to no value and, as time allows, management will try and turn a profit with the items.

CITY OF UNION, OREGON
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
June 30, 2010

The Library Department continues to be of concern because of the tight budget constraints. The Library will operate with a budget similar to the previous years. The library building received a new air conditioner and furnace, thanks to a USDA grant. The Municipal Park made it through another year with minimal improvements. The new park restrooms exceeded the budget amount; and for that reason the plans to revamp the old restrooms have been put on hold. Infrastructure in the park is starting to see wear and tear. The City will need to seek other revenue sources for this department in order to keep it safe and operable.

Within the Planning Department, the City Council is still tabling the proposed Comprehensive Plan Amendment, which has taken a great deal of staff and volunteers time and energy over the last two years. The Department of Land and Conservation is assisting on the rewrite of the plan. Adjusting the city fees to better reflect actual cost is on the list of to-do's in the coming year. It is anticipated that the City will end the year with a positive cash carry-over.

UTILITY FUND

As with previous budgets, revenues are separated within the two departments which comprise the Utility Fund. Increased water and sewer rates will raise adequate funds to cover operational expenses of the departments. Because of the Charter Amendments regarding water and sewer revenues, the City continues to make the departments self-sufficient and no longer reliant on each other for operational expenses.

Several projects were completed last year and several more are on the books. The City received a grant of \$14,000 to revamp the Water System Master Plan. The Gale Street water line replacement was completed by October 1, 2010. This project was completely funded by the City. The Arch Street water line replacement will start mid October and finish mid November 2010. New radio read water meters have been purchased to start the 7 year plan to replace all meters in town. The goal is to have two of the shorter routes replaced before winter. The WWTP plans to make the chlorine room user friendly and safer. The Oregon Street Lift Station will receive snow fencing again this year to help avoid the cost of plowing the road open continuously.

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. The City is currently working with the Antelope Ridge Wind Farm to sell bulk water for their proposed project.

While the Sewer Department is bringing in additional revenues as compared to other years, this department, like the Water Department has minimal funding for future emergencies and future maintenance. Once again this department had a substantial equipment failure in the 2009-2010 year as it did the year before. The age of the plant is a contributing factor. We have passed the 10 year mark and it shows up in the many system failures we have seen over the last couple of years. 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.

CITY OF UNION, OREGON
MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED
June 30, 2010

STREET FUND

The Street Fund continues to struggle. Council met in January of 2010 for a Council Retreat at which time they developed several goals; one being street maintenance. With that in mind, during the budget process revenues were put in areas that would create the most value for our citizens. There are several ideas on how to get more revenues into this fund. One is to cut the General Fund activities and another is to create a street user fee. The Council is currently working on a solution to this issue.

The City is anticipating starting the Dearborn Street project in mid 2011. It is estimated to be a \$760,000 project. The City's cost will be 10.27% of the total cost, for which in-kind services can be contributed.

EMS FUND

The Emergency Service Fund has benefitted greatly from the \$3.25 user fee. The department has purchased safety items for City volunteers, replaced outdated equipment and performed vehicle maintenance. Even while this is true, the department still has a long way to go. They are in need of more volunteers. Since we are in a rural location, it is difficult to get training for both firemen and the EMT's. State mandates have also hit this department hard. A great deal of time is spent maintaining State requirements. Management predicts that the City will, in the future, have to put on permanent employees.

The mutual aid agreement between the Rural Fire Department and the City of Union is working well. The contract gives each department their own responsibilities in order to keep cost down for both parties. The City pays the Workmen's Compensation and the volunteers' monthly stipend. The Rural Fire Department pays for all building costs for storage of City equipment, for both fire and ambulance. Additionally the Rural Fire Department will purchase equipment for the department to bring their expenses up to a level equal to that of the City.

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. Several maintenance projects have taken place. The water department is renting the larger shop behind the cottages, which should have a new roof by the end of the year. The Revolving Loan Fund has not seen any activity this past year. A great deal of time has been put into the new records room at city hall. There is still another year of sorting through paper work, cataloging documents that can be tossed and refilling documents that are required to be kept as per the State records retention policies.

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

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BASIC FINANCIAL STATEMENTS

CITY OF UNION, OREGON

STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

JUNE 30, 2010

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 368,513	\$ 1,016,888	\$ 1,385,401
Economic Development Loans Receivable (net of allowance for uncollectibles)	4,000	0	4,000
Capital Assets			
Land & Streets	934,058	6,437,895	7,371,953
Water & Sewer System	0	1,281,622	1,281,622
Wells	0	1,302,567	1,302,567
Buildings & Equipment	1,404,310	142,385	1,546,695
Equipment	0	153,720	153,720
Accumulated Depreciation	(1,523,317)	(4,240,041)	(5,763,358)
Total Capital Assets	<u>815,051</u>	<u>5,078,148</u>	<u>5,893,199</u>
Total Assets	<u>\$ 1,187,564</u>	<u>\$ 6,095,036</u>	<u>\$ 7,282,600</u>
LIABILITIES			
Current Portion of Bonds Payable	\$ 0	\$ 52,558	\$ 52,558
Utility Deposits	0	23,786	23,786
Renter Security Deposits	1,255	0	1,255
Revenue Bond Payable - long-term	0	2,346,666	2,346,666
Bonds Payable - long-term	0	55,649	55,649
Total Liabilities	<u>1,255</u>	<u>2,478,659</u>	<u>2,479,914</u>
NET ASSETS			
Invested in capital assets, net of related debt	815,051	2,623,275	3,438,326
Restricted for:			
Debt Service	0	141,951	141,951
Water/Sewer Capital Improvements	0	32,177	32,177
Streets	86,048	0	86,048
Bike and Pedestrian Paths	8,278	0	8,278
911 System	14,276	0	14,276
Unrestricted	<u>262,657</u>	<u>818,973</u>	<u>1,081,630</u>
Total Net Assets	<u>1,186,309</u>	<u>3,616,377</u>	<u>4,802,686</u>
Total Liabilities & Net Assets	<u>\$ 1,187,564</u>	<u>\$ 6,095,036</u>	<u>\$ 7,282,600</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, 2010

Activities:	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services Fines and Forfeitures	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental:							
General Government	\$ 77,673	\$ 1,634	\$ 0	\$ 0	\$ (76,039)	\$ 0	\$ (76,039)
Public Safety	164,872	108,827	15,201	0	(40,844)	0	(40,844)
Culture and Recreation	66,100	10	73,524	0	7,433	0	7,433
Municipal Court	6,368	2,283	0	0	(4,085)	0	(4,085)
Planning Department	27,597	33,894	0	0	6,297	0	6,297
Transportation and Streets	67,927	3,000	80,952	25,000	41,025	0	41,025
Solid Waste Transfer Site	6,250	4,298	0	0	(1,952)	0	(1,952)
Rentals	23,077	31,700	0	0	8,622	0	8,622
Depreciation - Unallocated	72,859	0	0	0	(72,859)	0	(72,859)
Total Governmental Activities	512,723	185,645	169,677	25,000	(132,401)	0	(132,401)
Business-type:							
Water/Sewer Utility	779,709	731,985	5,000	0	0	(42,724)	(42,724)
Total Activities	\$ 1,292,432	\$ 917,630	\$ 174,677	\$ 25,000	(132,401)	(42,724)	(175,125)
General Revenues:							
Property Taxes					110,065	61,311	171,376
Franchise Fees					91,148	0	91,148
Grants & contributions not restricted to a particular program					39,447	0	39,447
Interest on Investments					1,777	8,152	9,930
Miscellaneous					26,312	28,545	54,857
Transfers - Internal Activities:							
Operating					9,171	(9,171)	(0)
Total General Revenues and Transfers					277,920	88,837	366,757
Change in Net Assets					145,519	46,113	191,632
Net Assets, July 1, 2009					1,040,790	3,570,264	4,611,054
Net Assets, June 30, 2010					\$ 1,186,309	\$ 3,616,377	\$ 4,802,686

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

CITY OF UNION, OREGON
 BALANCE SHEET - MODIFIED CASH BASIS
 GOVERNMENTAL FUNDS
 JUNE 30, 2010

	General Fund	State Tax Street Fund	Emergency Services Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 149,617	\$ 31,966	\$ 38,207	\$ 148,723	\$ 368,513
Total Assets	\$ 149,617	\$ 31,966	\$ 38,207	\$ 148,723	\$ 368,513
 LIABILITIES AND FUND BALANCES					
LIABILITIES					
Renter Security Deposits	\$ 0	\$ 0	\$ 0	\$ 1,255	\$ 1,255
Due to Other funds	0	0	0	0	0
Total Liabilities	0	0	0	1,255	1,255
 Fund Balances:					
Reserved for:					
Streets	0	31,966	0	54,082	86,048
Bike & Pedestrian Paths	0	0	0	8,278	8,278
911 System	14,276	0	0	0	14,276
Unreserved reported in:					
General Fund	135,341	0	0	0	135,341
Special Revenue Funds	0	0	38,207	34,395	72,602
Capital Projects Funds	0	0	0	50,714	50,714
Total Fund Balances	149,617	31,966	38,207	147,469	367,258
Total Liabilities and Fund Balances	\$ 149,617	\$ 31,966	\$ 38,207	\$ 148,724	\$ 368,513

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, 2010

Fund Balances of Governmental Funds	\$	367,258
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Receivables for economic development loans made by the Downtown Revolving Loan Fund a (governmental type fund) are not reported in the fund financial statements, but are reported in the Statement of Net Assets at their estimated collectible value.

4,000

Capital Assets are not financial resources in governmental funds, but are reported in the Statement of Net Assets at their net depreciable value.

815,051

Net assets of governmental activities

\$ 1,186,309

The accompanying notes are an integral part of this financial 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, 2010

	General Fund	State Tax Street Fund	Emergency Services Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Taxes:					
Property	\$ 109,674	\$ 0	\$ 391	\$ 0	\$ 110,065
Franchise	91,148	0	0	0	91,148
Licenses and Permits	35,528	0	43,380	0	78,908
Intergovernmental Revenues	39,447	80,952	0	0	120,399
Charges for Services	4,298	3,000	65,447	0	72,745
Fines and Forfeitures	2,283	0	0	0	2,283
Rental Income	10	0	0	31,700	31,710
Miscellaneous Revenue	21,219	5,762	1,730	600	29,311
Grants	70,524	25,000	15,201	0	110,725
Interest Income	830	85	216	647	1,777
	<u>374,960</u>	<u>114,800</u>	<u>126,364</u>	<u>32,947</u>	<u>649,071</u>
Total Revenues					
EXPENDITURES:					
Administration	77,091	0	0	4,582	81,673
Public Safety	81,847	0	83,025	0	164,872
Culture and Recreation	61,702	0	0	4,398	66,100
Municipal Court	6,368	0	0	0	6,368
Planning Department	27,597	0	0	0	27,597
Transportation and Streets	0	67,927	0	0	67,927
Solid Waste Transfer Site	6,250	0	0	0	6,250
Rental Expenses	0	0	0	23,077	23,078
Capital Outlay:					
Buildings	36,740	0	0	6,054	42,794
Streets	0	26,414	0	0	26,414
Emergency Services	0	0	29,859	69,330	99,189
	<u>297,595</u>	<u>94,341</u>	<u>112,884</u>	<u>107,441</u>	<u>612,261</u>
Total Expenditures					
Excess of Revenues Over (Under) Expenditures	<u>77,365</u>	<u>20,459</u>	<u>13,481</u>	<u>(74,494)</u>	<u>36,810</u>
OTHER FINANCING SOURCES (USES):					
Operating Transfers In	0	0	0	21,000	21,000
Operating Transfers Out	<u>(5,829)</u>	<u>(10,000)</u>	<u>4,000</u>	<u>0</u>	<u>(11,829)</u>
Total Other Financing Sources (Uses)	<u>(5,829)</u>	<u>(10,000)</u>	<u>4,000</u>	<u>21,000</u>	<u>9,171</u>
Net Change in Fund Balances	71,536	10,459	17,481	(53,494)	45,981
FUND BALANCES - BEGINNING	<u>78,081</u>	<u>21,507</u>	<u>20,726</u>	<u>200,962</u>	<u>321,276</u>
FUND BALANCES - ENDING	<u>\$ 149,617</u>	<u>\$ 31,966</u>	<u>\$ 38,207</u>	<u>\$ 147,468</u>	<u>\$ 367,258</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, 2010

Net change in fund balances - total governmental funds	\$	45,981
Principal advances and collections received on economic development loans are considered increases and uses of current financial resources in governmental funds. In the Statement of Activities these principal advances and collections are eliminated from revenues and expenses as they only constitute a change in form of an asset.		4,000
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 \$168,397 exceeded by depreciation expense (\$72,859) in the governmental funds is:		<u>95,538</u>
Change in net assets of governmental activities	\$	<u>145,519</u>

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

CITY OF UNION, OREGON
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS -
PROPRIETARY FUND
JUNE 30, 2010

		<u>Water/Sewer Utility Fund</u>
ASSETS		
Cash In Bank - Checking	\$	1,016,888
Fixed Assets:		
Sewer System		6,437,895
Water System		1,281,622
Well Water System		1,302,567
Sewer Department Equipment		142,385
Water Department Equipment		153,720
Accumulated Depreciation		<u>(4,240,041)</u>
Total Assets	\$	<u>6,095,036</u>
LIABILITIES		
Utility Deposits	\$	23,786
Current Portion of Bonds Payable		52,558
Revenue Bond Payable - long term		2,346,666
General Obligation Bonds Payable - long term		<u>55,649</u>
Total Liabilities		<u>2,478,659</u>
NET ASSETS		
Invested in capital assets, net of related debt		2,623,275
Restricted for Debt Service		141,951
Restricted for Capital Improvements		32,177
Unrestricted		<u>818,973</u>
Total Net Assets		<u>3,616,377</u>
Total Liabilities and Net Assets	\$	<u>6,095,036</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, 2010

	<u>Water/Sewer Utility Fund</u>
OPERATING REVENUES:	
Charges for Services	\$ <u>731,985</u>
OPERATING EXPENSES:	
Water Department	214,275
Sewer Department	224,149
Depreciation Expense	<u>226,315</u>
Total Operating Expenses	<u>664,739</u>
Operating Income	<u>67,246</u>
NON-OPERATING REVENUES (EXPENSES):	
Interest Revenue	8,152
Grant Revenue	5,000
Property Tax Revenue	61,311
Reimbursements and Miscellaneous	28,545
Interest Expense	<u>(114,970)</u>
Total Non-Operating Revenues (Expenses)	<u>(11,962)</u>
Income Before Operating Transfers	55,284
OPERATING TRANSFERS	
Transfers (Out)	<u>(9,171)</u>
Total Transfers	<u>(9,171)</u>
CHANGE IN NET ASSETS	46,113
TOTAL NET ASSETS - BEGINNING	<u>3,570,264</u>
TOTAL NET ASSETS - ENDING	<u>\$ <u>3,616,377</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, 2010

	<u>Water/Sewer Utility Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from Customers and Users	\$ 731,985
Payments to Suppliers	(220,175)
Payments to Employees	<u>(218,248)</u>
Net Cash Provided By Operating Activities	<u>293,561</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Property Tax Receipts	61,311
Grant Proceeds	5,000
Reimbursements Received	28,545
Net Utility Deposits Collected	2,324
Transfers (Out)	<u>(9,171)</u>
Net Cash Provided (Used) By Noncapital Financing Activities	<u>88,008</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchases of Fixed Assets	(82,929)
Principal Payments on Bonded Indebtedness	(88,929)
Interest Paid on Bonded Indebtedness	<u>(114,970)</u>
Net Cash Provided (Used) by Financing Activities	<u>(286,828)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interfund Loan Repayments Received	13,035
Interest Income	<u>8,152</u>
Net Cash Provided by Investing Activities	<u>21,187</u>
NET INCREASE (DECREASE) IN CASH	115,929
CASH AT BEGINNING OF YEAR	<u>900,958</u>
CASH AT END OF YEAR	\$ <u>1,016,888</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:	
Operating Income/(Loss)	67,246
Depreciation	<u>226,315</u>
Net Cash Provided by Operating Activities	\$ <u>293,561</u>

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

CITY OF UNION
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

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, 2010

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:

<u>Fund</u>	<u>Brief Description</u>
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, 2010

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, 2010

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, 2010

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.

ECONOMIC DEVELOPMENT LOANS

The City has a Downtown Revolving Loan Fund from which it makes loans for public and private projects which the City Council believes will be an asset to the community. Interest is charged on the outstanding balances and the repayment schedule is tailored to the individual loan. In the government-wide statements the loans are reported as an asset (net of an allowance for uncollectible amounts). In the fund financial statements the loans are recorded as a use of resources when made and an inflow of resources when paid repaid.

CITY OF UNION
NOTES TO BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2010

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.

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

CITY OF UNION
NOTES TO BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2010

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.
- 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

CITY OF UNION
NOTES TO BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2010

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, 2010 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.

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.

CITY OF UNION
 NOTES TO BASIC FINANCIAL STATEMENTS, Continued
 JUNE 30, 2010

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.
2. 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 year ended June 30, 2010, the City had the following instances 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>
General Fund - Planning Dept.	Personal Services	\$ 878
Building Maintenance Reserve	Personal Services	\$ 582

CITY OF UNION
NOTES TO BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2010

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.

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 \$1,342,528 and the bank balance was \$1,357,589. Of this balance \$321,438 was covered by federal depository insurance. The remaining balance of \$1,036,151 was fully collateralized under the provisions of ORS 295.

At June 30, 2010 the City also has an investment of \$42,483 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, 2010.

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.

CITY OF UNION
 NOTES TO BASIC FINANCIAL STATEMENTS, Continued
 JUNE 30, 2010

3.B. RESTRICTED ASSETS, Continued

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:

<u>Loan Number</u>	<u>Annual Reserve Requirement</u>	<u>Maximum Reserve Requirement</u>	<u>Current Reserve Balance</u>
92-02	\$ 480	\$ 6,000	\$ 6,000
92-03	735	7,350	7,350
92-05	14,289	142,887	128,601
Totals	\$ 15,504	\$ 156,237	\$ 141,951

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, 2010 is \$32,177.

In the prior 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 \$14,276 as of June 30, 2010. 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 two 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, 2010 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	\$ 26,414	\$ 0	\$ 934,058
Buildings and Equipment	1,262,327	141,983	0	1,404,310
Total capital assets	<u>2,169,971</u>	<u>168,397</u>	<u>0</u>	<u>2,338,368</u>
Less accumulated depreciations for:				
Streets	(556,909)	(21,406)	0	(578,315)
Buildings and Equipment	(893,549)	(51,453)	0	(945,002)
Total accumulated depreciation	<u>(1,450,458)</u>	<u>(72,859)</u>	<u>0</u>	<u>(1,523,317)</u>
Governmental activities capital assets, net	<u>\$ 719,513</u>	<u>\$ 95,538</u>	<u>\$ 0</u>	<u>\$ 815,051</u>

CITY OF UNION
NOTES TO BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2010

3.C. CAPITAL ASSETS, Continued

	Beginning Balance	Increase	Decrease	Ending Balance
Business-type activities:				
Capital assets:				
Sewer System	\$ 6,437,895	\$ 0	\$ 0	\$ 6,437,895
Water System	1,198,693	82,929	0	1,281,622
Wells	1,302,567	0	0	1,302,567
Sewer Department Equipment	142,385	0	0	142,385
Water Department Equipment	153,720	0	0	153,720
Total capital assets	<u>9,235,260</u>	<u>82,929</u>	<u>0</u>	<u>9,318,189</u>
Less accumulated depreciated for:				
Sewer System	(2,302,166)	(160,947)	0	(2,463,113)
Water System	(603,719)	(32,804)	0	(636,523)
Wells	(811,736)	(32,564)	0	(844,300)
Sewer Department Equipment	(142,385)	0	0	(142,385)
Water Department Equipment	(153,720)	0	0	(153,720)
Total accumulated depreciation	<u>(4,013,726)</u>	<u>(226,315)</u>	<u>0</u>	<u>(4,240,041)</u>
Business-type activities capital assets, net	<u>\$ 5,221,534</u>	<u>\$ (143,386)</u>	<u>\$ 0</u>	<u>\$ 5,078,148</u>

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

Governmental activities:		
Unallocated*		\$ 72,859
Total depreciation expense - governmental activities		<u>\$ 72,859</u>
Business-type activities:		
Water Utility		\$ 65,368
Sewer Utility		160,947
Total depreciation expense-business-type activities		<u>\$ 226,315</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, 2010, the City had no long term debt, arising from cash transactions, payable from governmental fund resources.

The City had a capital lease obligation to Oshkosh Capital of Columbus, Ohio for the lease/purchase of an ambulance. The required lease payments in the amount of \$10,475 are due July 19, 2010, 2011 and 2012. At then end of the lease term title to the ambulance will vest in the City. This lease did not arise from a cash transaction and therefore on the modified cash basis of accounting a liability is not accrued in the Statement of Net Assets. Coincidentally on the modified cash basis of accounting the leased portion of the ambulance is not included in Capital Assets.

CITY OF UNION
 NOTES TO BASIC FINANCIAL STATEMENTS, Continued
 JUNE 30, 2010

3.D. LONG-TERM DEBT, Continued

BUSINESS-TYPE ACTIVITIES

As of June 30, 2010, the long-term debt, arising from cash transactions, payable from proprietary fund resources consisted of the following:

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. Final payment of \$8,464 including interest at 4.75% is due on June 25, 2011.	\$	8,081
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.		27,681
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.		55,648
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. Secured by future Sewer User Fees.		<u>2,363,462</u>
Total Business-type activity long term debt	\$	<u><u>2,454,872</u></u>

Refundable Deposits:

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

Utility Deposits - Refundable	\$	23,786
Rental Security Deposits - Refundable		<u>1,255</u>
Total Refundable Deposits	\$	<u><u>25,041</u></u>

CHANGES IN LONG-TERM DEBT

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

<u>Type of Debt</u>	<u>Balance July 1, 2009</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Balance June 30, 2010</u>	<u>Amount Due Within One Year</u>
Business-Type Activities:						
Notes and Bonds Payable	\$ 2,543,801	\$ 0	\$ 0	\$ (88,929)	\$ 2,454,872	\$ 52,556

CITY OF UNION
 NOTES TO BASIC FINANCIAL STATEMENTS, Continued
 JUNE 30, 2010

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, 2010, are as follows:

<i>Year Ended June 30,</i>	<i>Business-type Activities Long Term Debt Obligations</i>	
	<i>Principal</i>	<i>Interest</i>
2011	\$ 52,556	\$ 110,808
2012	48,521	108,378
2013	48,661	106,238
2014	50,900	103,999
2015	53,243	101,656
2016 - 2020	288,430	470,010
2021 - 2025	310,363	404,072
2026 - 2030	386,769	327,666
2031 - 2035	481,985	232,450
2036 - 2040	600,641	113,794
2041 - 2045	134,803	6,066
Total	\$ 2,454,872	\$ 2,085,137

3.E. INTERFUND TRANSFERS AND BALANCES

INTERFUND TRANSFERS

Transfers between funds of the City for the year ended June 30, 2010, were as follows:

Transfer out:	Transfer In:			
	Water/Sewer Utility Fund	Emergency Services Fund	Nonmajor Governmental Funds	Total
General Fund	\$ 829	\$ 4,000	\$ 1,000	\$ 5,829
Special Street Fund	0	0	10,000	10,000
Water/Sewer Utility Fund	0	0	10,000	10,000
Total Operating Transfers	\$ 829	\$ 4,000	\$ 21,000	\$ 25,829

CITY OF UNION
NOTES TO BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2010

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 / Sewer Utility Fund to the nonmajor Building Maintenance Reserve Fund are to set aside money for future improvement projects. Transfers from the Special Street 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 made the final payment on this interfund debt during the fiscal year, and no interfund loans were outstanding at June 30, 2010.

NOTE 4. OTHER NOTES

4.A. SEGMENT INFORMATION

The City issued revenue bonds to finance its sewer department. The sewer and water departments are accounted for in a single fund, but investors in those bond rely solely on the revenue generated by the individual activities for repayment. Summary financial information for each department is presented below on the modified cash basis of accounting. The Water Department operates the City's water supply system. The Sewer Department operates the City's sewage treatment plant, sewage pumping stations, and collection systems.

	Water Department	Sewer Department
CONDENSED STATEMENT OF NET ASSETS		
Assets		
Current Assets	\$ 476,533	\$ 540,355
Capital Assets	1,103,366	3,974,782
Total Assets	1,579,899	4,515,137
Liabilities		
Utility Deposits	10,812	12,974
Current portion of Bonds Payable	8,081	44,477
Noncurrent Liabilities	0	2,402,315
Total Liabilities	18,893	2,459,766
Net Assets		
Invested in capital assets, net of related debt	1,095,286	1,527,989
Restricted for Debt Service	0	141,951
Restricted for Capital Improvements	23,941	8,236
Unrestricted	441,782	377,192
Total net Assets	\$ 1,561,009	\$ 2,055,368

CITY OF UNION
NOTES TO BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2010

4.A. SEGMENT INFORMATION, Continued

	Water	Sewer
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS	<u>Department</u>	<u>Department</u>
Operating revenues	\$ 302,066	\$ 429,918
Depreciation expense	65,368	160,947
Other operating expenses	214,275	224,149
Operating Income	<u>22,423</u>	<u>44,822</u>
Nonoperating revenues (expenses):		
Investment income	3,707	4,445
Property tax revenue	49,239	12,072
Grant revenue	5,000	0
Reimbursements and Miscellaneous revenue	16,149	12,396
Interest expense	(2,588)	(112,381)
Transfers in (out)	(9,324)	153
Change in net assets	84,606	(38,493)
Beginning net assets	<u>1,476,403</u>	<u>2,093,861</u>
Ending net assets	<u>\$ 1,561,009</u>	<u>\$ 2,055,368</u>

CONDENSED STATEMENT OF CASH FLOWS

Net cash provided (used) by:

Operating activities	\$ 87,792	\$ 205,769
Noncapital financing activities	62,120	25,889
Capital and related financing activities	(131,929)	(154,898)
Investing activities	8,403	12,784
Net increase (decrease)	26,386	89,544
Beginning cash and cash equivalents	<u>450,147</u>	<u>450,811</u>
Ending cash and cash equivalents	<u>\$ 476,533</u>	<u>\$ 540,355</u>

4.B. EMPLOYEE PENSION AND OTHER BENEFIT PLANS

PENSION PLANS

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

CITY OF UNION
NOTES TO BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2010

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

PENSION PLANS, Continued

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 contribution of 8 % of eligible wages into the plan. Total pension expense for the year ending June 30, 2010 amounted to \$ 29,637. 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 Sheriff for police services.

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 \$15,239 in vacation time earned but not paid, or the \$1,982 in compensatory time earned but not paid as of June 30, 2010 because these compensated absence accruals were not the result of cash transactions.

4.C. 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.

CITY OF UNION
NOTES TO BASIC FINANCIAL STATEMENTS, Continued
JUNE 30, 2010

4.C. CONTINGENCIES, COMMITMENTS AND SUBSEQUENT EVENTS

CONTINGENCIES AND COMMITMENTS

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.

The City also believed these loans would terminate at the time, if not before, 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.

There were no other significant contingencies or commitments as of June 30, 2010.

SUBSEQUENT EVENTS

There were no items which require reporting as subsequent events. All subsequent events were considered through October 11, 2010.

Required Supplementary Information

CITY OF UNION, OREGON

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -

BUDGET AND ACTUAL - GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2010

	BUDGET		ACTUAL		
	Original Budget	Final Budget	Budget Basis	Adjustment	Modified Cash Basis
REVENUES:					
Local Taxes					
Property Taxes - Current Year	\$ 102,000	\$ 102,000	\$ 105,512	\$ 0	\$ 105,512
Property Taxes - Prior Year	4,000	4,000	4,162	0	4,162
Franchise Fees	95,000	95,000	91,148	0	91,148
Total Local Taxes	<u>201,000</u>	<u>201,000</u>	<u>200,822</u>	<u>0</u>	<u>200,822</u>
Licenses & Permits					
Land Use Fees	34,600	34,600	33,894	0	33,894
License & Fees	1,300	1,300	1,634	0	1,634
Total Licenses and Permits	<u>35,900</u>	<u>35,900</u>	<u>35,528</u>	<u>0</u>	<u>35,528</u>
Intergovernmental					
Cigarette Tax Apportionment	3,000	3,000	2,866	0	2,866
State Liquor Apportionment	23,500	23,500	22,614	0	22,614
911 Taxes	0	0	0	0	0
Oregon Revenue Sharing Funds	12,500	12,500	13,967	0	13,967
Total Intergovernmental	<u>39,000</u>	<u>39,000</u>	<u>39,447</u>	<u>0</u>	<u>39,447</u>
Charges for Services					
Transfer Site Revenue	5,000	5,000	4,298	0	4,298
Total Charges for Services	<u>5,000</u>	<u>5,000</u>	<u>4,298</u>	<u>0</u>	<u>4,298</u>
Fines and Forfeitures					
Vehicle Impounds	0	0	0	0	0
District Court Fines	100	100	474	0	474
Municipal Court Fines	1,000	1,000	1,809	0	1,809
Animal Impounds	0	0	0	0	0
Total Fines and Forfeitures	<u>1,100</u>	<u>1,100</u>	<u>2,283</u>	<u>0</u>	<u>2,283</u>
Rental Income	80	80	10	0	10
Refunds, Donations and Miscellaneous	4,000	9,424	21,219	0	21,219
Interest	800	800	830	0	830
Grants	70,595	70,595	70,524	0	70,524
Total Revenues	<u>357,475</u>	<u>362,899</u>	<u>374,960</u>	<u>0</u>	<u>374,960</u>
EXPENDITURES:					
Administrative:					
Personal Services	44,405	44,405	32,134		32,134
Materials/Services	41,230	46,654	44,785	172	44,957
Capital Outlay	1,000	1,000	172	(172)	0
Total Administrative	<u>86,635</u>	<u>92,059</u>	<u>77,091</u>	<u>0</u>	<u>77,091</u>
Police Department:					
Personal Services	7,100	7,100	1,259	0	1,259
Materials/Services	79,500	80,750	80,589	0	80,589
Total Police Department	<u>86,600</u>	<u>87,850</u>	<u>81,847</u>	<u>0</u>	<u>81,847</u>

CITY OF UNION, OREGON

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -

BUDGET AND ACTUAL - GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2010

	BUDGET		ACTUAL		
	Original Budget	Final Budget	Budget Basis	Adjustment	Modified Cash Basis
Library:					
Personal Services	41,545	41,545	35,572	0	35,572
Materials/Services	17,275	17,275	16,170	0	16,170
Total Library	58,820	58,820	51,743	0	51,743
Municipal Court:					
Personal Services	5,270	5,270	5,172	0	5,172
Materials/Services	2,000	2,000	1,197	0	1,197
Total Municipal Court	7,270	7,270	6,368	0	6,368
Planning Department:					
Personal Services	0	0	878	0	878
Materials/Services	50,350	50,350	26,718	0	26,718
Total Planning Department	50,350	50,350	27,597	0	27,597
Solid Waste Transfer Site:					
Personal Services	5,700	5,700	3,212	0	3,212
Materials/Services	6,950	6,950	3,038	0	3,038
Total Solid Waste Transfer Site	12,650	12,650	6,250	0	6,250
Municipal Park:					
Personal Services	4,860	4,860	4,482	0	4,482
Materials/Services	8,450	8,450	5,477	0	5,477
Capital Outlay	36,740	36,740	36,740	0	36,740
Total Municipal Park	50,050	50,050	46,699	0	46,699
Contingency	36,236	34,986	0	0	0
Total Expenditures	388,611	394,035	297,595	0	297,595
Excess of Revenues Over (Under) Expenditures	(31,136)	(31,136)	77,365	0	77,365
OTHER FINANCING SOURCES (USES):					
Operating Transfers (Out)	(5,864)	(5,864)	(5,864)	35	(5,829)
Interfund Loan Transfers (Out)	(13,000)	(13,000)	(13,000)	13,000	0
Total Transfers	(18,864)	(18,864)	(18,864)	13,035	(5,829)
Net Changes in Fund Balance	(50,000)	(50,000)	58,501	13,035	71,536
FUND BALANCE - BEGINNING	50,000	50,000	91,116	(13,035)	78,081
FUND BALANCE - ENDING	\$ 0	\$ 0	\$ 149,617	\$ 0	\$ 149,617

CITY OF UNION, OREGON

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -

BUDGET AND ACTUAL - STATE STREET TAX FUND

FOR THE YEAR ENDED JUNE 30, 2010

	BUDGET		ACTUAL		
	Original Budget	Final Budget	Budget Basis	Adjustment	Modified Cash Basis
REVENUES:					
State Highway Apportionment	\$ 88,500	\$ 88,500	\$ 80,952	\$ 0	\$ 80,952
ODOT Small City Allotment	25,000	25,000	25,000	0	25,000
Charges for Services	1,000	1,000	3,000	0	3,000
Miscellaneous Income	100	2,100	5,762	0	5,762
Interest Income	400	400	85	0	85
Total Revenues	115,000	117,000	114,800	0	114,800
EXPENDITURES:					
Personal Services	33,890	33,890	28,009	0	28,009
Materials/Services	50,120	52,120	39,918	0	39,918
Capital Outlay	25,000	26,680	26,414	0	26,414
Contingency	19,990	18,310	0	0	0
Total Expenditures	129,000	131,000	94,341	0	94,341
Excess of Revenues Over (Under) Expenditures	(14,000)	(14,000)	20,459	0	20,459
OTHER FINANCING (USES):					
Operating Transfers - Out	(10,000)	(10,000)	(10,000)	0	(10,000)
Net Changes in Fund Balance	(24,000)	(24,000)	10,459	0	10,459
FUND BALANCE - BEGINNING	24,000	24,000	21,507	0	21,507
FUND BALANCE - ENDING	\$ 0	\$ 0	\$ 31,966	\$ 0	\$ 31,966

CITY OF UNION, OREGON

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -

BUDGET AND ACTUAL - EMERGENCY SERVICES FUND

FOR THE YEAR ENDED JUNE 30, 2010

	BUDGET		ACTUAL		
	Original Budget	Final Budget	Budget Basis	Adjustment	Modified Cash Basis
REVENUES:					
Property Tax Revenue	\$ 800	\$ 800	\$ 391	\$ 0	\$ 391
Grants	24,500	39,701	15,201	0	15,201
Ambulance Service Fees	60,000	60,000	65,447	0	65,447
Utility Bill Surcharge Fees	36,000	36,000	39,150	0	39,150
Burn Permits	2,500	2,500	4,230	0	4,230
Miscellaneous Revenue	2,600	2,600	1,730	0	1,730
Interest Income	100	100	216	0	216
Total Revenues	126,500	141,701	126,364	0	126,364
EXPENDITURES:					
Personal Services	18,195	18,195	18,907	0	18,907
Materials/Services	66,535	66,535	46,654	17,464	64,118
Capital Outlay	29,500	61,701	47,323	(17,464)	29,859
Contingency	18,770	1,770	0	0	0
Total Expenditures	133,000	148,201	112,884	0	112,884
Excess of Revenues Over (Under) Expenditures	(6,500)	(6,500)	13,481	0	13,481
OTHER FINANCING (USES):					
Operating Transfers - In (Out)	4,000	4,000	4,000	0	4,000
Net Changes in Fund Balance	(2,500)	(2,500)	17,481	0	17,481
FUND BALANCE - BEGINNING	2,500	2,500	20,726	0	20,726
FUND BALANCE - ENDING	\$ 0	\$ 0	\$ 38,207	\$ 0	\$ 38,207

CITY OF UNION

Notes to Required Supplementary Information

For the year ended June 30, 2010

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, 2010

	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	\$ 24,484	\$ 11,166	\$ 8,278	\$ 10,102	\$ 39,074	\$ 51,894	\$ 3,056	\$ 670	\$ 148,724
Total Assets	\$ 24,484	\$ 11,166	\$ 8,278	\$ 10,102	\$ 39,074	\$ 51,894	\$ 3,056	\$ 670	\$ 148,724
LIABILITIES AND FUND BALANCES									
Liabilities									
Renter Security Deposit	\$ 1,255	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,255
Total Liabilities	1,255	0	0	0	0	0	0	0	1,255
Fund Balances (Deficit)									
Reserved for Streets	0	0	0	2,188	0	51,894	0	0	54,082
Reserved for Bike & Pedestrian Paths	0	0	8,278	0	0	0	0	0	8,278
Unreserved	23,229	11,166	0	7,914	39,074	0	3,056	670	85,109
Total Fund Balances	23,229	11,166	8,278	10,102	39,074	51,894	3,056	670	147,469
Total Liabilities and Fund Balance	\$ 24,484	\$ 11,166	\$ 8,278	\$ 10,102	\$ 39,074	\$ 51,894	\$ 3,056	\$ 670	\$ 148,724

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, 2010

	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	\$ 31,700	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 31,700
Miscellaneous Revenue	100	0	0	0	0	0	0	0	100
Loan Repayment Income	0	500	0	0	0	0	0	0	500
Grants	0	0	0	0	0	0	0	0	0
Interest Income	0	66	43	59	207	254	18	0	647
Total Revenues	31,800	566	43	59	207	254	18	0	32,947
EXPENDITURES:									
Personal Services	8,700	0	0	0	582	0	0	0	9,282
Materials and Services	14,377	4,000	0	0	3,898	0	500	0	22,775
Capital Outlay	0	0	0	0	6,054	0	0	69,330	75,384
Total Expenditures	23,077	4,000	0	0	10,534	0	500	69,330	107,441
Excess of Revenues Over (Under) Expenditures	8,723	(3,434)	43	59	(10,327)	254	(482)	(69,330)	(74,494)
OTHER FINANCING SOURCES (USES):									
Operating Transfers In	0	0	1,000	0	11,000	9,000	0	0	21,000
Net Change in Fund Balances	8,723	(3,434)	1,043	59	673	9,254	(482)	(69,330)	(53,494)
FUND BALANCES - BEGINNING	14,506	14,600	7,235	10,043	38,401	42,640	3,538	70,000	200,962
FUND BALANCES - ENDING	\$ 23,229	\$ 11,166	\$ 8,278	\$ 10,102	\$ 39,074	\$ 51,894	\$ 3,056	\$ 670	\$ 147,468

CITY OF UNION, OREGON

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -

BUDGET AND ACTUAL - RANGER STATION FUND

FOR THE YEAR ENDED JUNE 30, 2010

	BUDGET		ACTUAL		
	Original Budget	Final Budget	Budget Basis	Adjustment	Modified Cash Basis
REVENUES:					
Rental Income	\$ 29,300	\$ 29,300	\$ 31,700	\$ 0	\$ 31,700
Miscellaneous Revenue	100	100	100	0	100
Interest Income	100	100	0	0	0
Total Revenues	29,500	29,500	31,800	0	31,800
EXPENDITURES:					
Personal Services	11,100	11,100	8,700	0	8,700
Materials/Services	21,750	21,750	14,149	228	14,377
Capital Outlay	2,500	2,500	228	(228)	0
Contingency	2,500	2,500	0	0	0
Total Expenditures	37,850	37,850	23,077	0	23,077
Excess of Revenues Over (Under) Expenditures	(8,350)	(8,350)	8,723	0	8,723
FUND BALANCE - BEGINNING	10,000	10,000	14,506	0	14,506
FUND BALANCE - ENDING	\$ 1,650	\$ 1,650	\$ 23,229	\$ 0	\$ 23,229

CITY OF UNION, OREGON

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -

BUDGET AND ACTUAL - DOWNTOWN REVOLVING LOAN FUND

FOR THE YEAR ENDED JUNE 30, 2010

	BUDGET		ACTUAL		
	Original Budget	Final Budget	Budget Basis	Adjustment	Modified Cash Basis
REVENUES:					
Loan Repayment Income	\$ 600	\$ 600	\$ 500	\$ 0	\$ 500
Interest Income	100	100	66	0	66
Total Revenues	700	700	566	0	566
EXPENDITURES:					
Materials/Services	15,200	15,200	4,000	0	4,000
Net Changes in Fund Balance	(14,500)	(14,500)	(3,434)	0	(3,434)
FUND BALANCE - BEGINNING	14,500	14,500	14,600	0	14,600
FUND BALANCE - ENDING	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 11,166</u>	<u>\$ 0</u>	<u>\$ 11,166</u>

CITY OF UNION, OREGON

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -

BUDGET AND ACTUAL - BIKE/PEDESTRIAN PATH FUND

FOR THE YEAR ENDED JUNE 30, 2010

	BUDGET		ACTUAL		
	Original Budget	Final Budget	Budget Basis	Adjustment	Modified Cash Basis
REVENUES:					
Interest Income	\$ 50	\$ 50	\$ 43	\$ 0	\$ 43
Excess of Revenues Over (Under) Expenditures	50	50	43	0	43
OTHER FINANCING (USES):					
Operating Transfers - In	1,000	1,000	1,000	0	1,000
Net Changes in Fund Balance	1,050	1,050	1,043	0	1,043
FUND BALANCE - BEGINNING	<u>7,150</u>	<u>7,150</u>	<u>7,235</u>	<u>0</u>	<u>7,235</u>
FUND BALANCE - ENDING	<u>\$ 8,200</u>	<u>\$ 8,200</u>	<u>\$ 8,278</u>	<u>\$ 0</u>	<u>\$ 8,278</u>

CITY OF UNION, OREGON

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -

BUDGET AND ACTUAL - VEHICLE/EQUIPMENT RESERVE FUND

FOR THE YEAR ENDED JUNE 30, 2010

	BUDGET		ACTUAL		
	Original Budget	Final Budget	Budget Basis	Adjustment	Modified Cash Basis
REVENUES:					
Interest Income	\$ 125	\$ 125	\$ 59	\$ 0	\$ 59
Total Revenues	125	125	59	0	59
EXPENDITURES:					
Materials/Services	9,000	9,000	0	0	0
Capital Outlay	1,000	1,000	0	0	0
Total Expenditures	10,000	10,000	0	0	0
Excess of Revenues Over (Under) Expenditures	(9,875)	(9,875)	59	0	59
FUND BALANCE - BEGINNING	<u>9,875</u>	<u>9,875</u>	<u>10,043</u>	<u>0</u>	<u>10,043</u>
FUND BALANCE - ENDING	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 10,102</u>	<u>\$ 0</u>	<u>\$ 10,102</u>

CITY OF UNION, OREGON

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -

BUDGET AND ACTUAL - BUILDING/MAINTENANCE RESERVE FUND

FOR THE YEAR ENDED JUNE 30, 2010

	BUDGET		ACTUAL		
	Original Budget	Final Budget	Budget Basis	Adjustment	Modified Cash Basis
REVENUES:					
Interest Income	\$ 225	\$ 225	\$ 207	\$ -	\$ 207
Total Revenues	225	225	207	0	207
EXPENDITURES:					
Personal Services	0	0	582	0	582
Materials/Services	0	0	0	3,898	3,898
Capital Outlay	20,000	20,000	9,952	(3,898)	6,054
Total Expenditures	20,000	20,000	10,534	0	10,534
Excess of Revenues Over (Under) Expenditures	(19,775)	(19,775)	(10,327)	0	(10,327)
OTHER FINANCING (USES):					
Operating Transfers - In	11,000	11,000	11,000	0	11,000
Net Changes in Fund Balance	(8,775)	(8,775)	673	0	673
FUND BALANCE - BEGINNING	<u>39,225</u>	<u>39,225</u>	<u>38,401</u>	<u>0</u>	<u>38,401</u>
FUND BALANCE - ENDING	<u>\$ 30,450</u>	<u>\$ 30,450</u>	<u>\$ 39,074</u>	<u>\$ 0</u>	<u>\$ 39,074</u>

CITY OF UNION, OREGON

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -

BUDGET AND ACTUAL - STREET IMPROVEMENT RESERVE FUND

FOR THE YEAR ENDED JUNE 30, 2010

	BUDGET		ACTUAL		
	Original Budget	Final Budget	Budget Basis	Adjustment	Modified Cash Basis
REVENUES:					
Interest Income	\$ 150	\$ 150	\$ 254	\$ 0	\$ 254
EXPENDITURES					
Capital Outlay	5,000	5,000	0	0	0
Excess of Revenues Over (Under) Expenditures	(4,850)	(4,850)	254	0	254
OTHER FINANCING (USES):					
Operating Transfers - In	9,000	9,000	9,000	0	9,000
Net Changes in Fund Balance	4,150	4,150	9,254	0	9,254
FUND BALANCE - BEGINNING	<u>42,350</u>	<u>42,350</u>	<u>42,640</u>	<u>0</u>	<u>42,640</u>
FUND BALANCE - ENDING	<u>\$ 46,500</u>	<u>\$ 46,500</u>	<u>\$ 51,894</u>	<u>\$ 0</u>	<u>\$ 51,894</u>

CITY OF UNION, OREGON

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -

BUDGET AND ACTUAL - UNION COMMUNITY TRUST FUND

FOR THE YEAR ENDED JUNE 30, 2010

	BUDGET		ACTUAL		
	Original Budget	Final Budget	Budget Basis	Adjustment	Modified Cash Basis
REVENUES:					
Donations	\$ 100	\$ 100	\$ 0	\$ 0	\$ 0
Interest Income	25	25	18	0	18
Total Revenues	<u>125</u>	<u>125</u>	<u>18</u>	<u>0</u>	<u>18</u>
EXPENDITURES:					
Materials/Services	<u>3,000</u>	<u>3,000</u>	<u>500</u>	<u>0</u>	<u>500</u>
Excess of Revenues Over (Under) Expenditures	(2,875)	(2,875)	(482)	0	(482)
OTHER FINANCING (USES):					
Operating Transfers - In	0	0	0	0	0
Operating Transfers - (Out)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Changes in Fund Balance	(2,875)	(2,875)	(482)	0	(482)
FUND BALANCE - BEGINNING	<u>3,475</u>	<u>3,475</u>	<u>3,538</u>	<u>0</u>	<u>3,538</u>
FUND BALANCE - ENDING	\$ <u>600</u>	\$ <u>600</u>	\$ <u>3,056</u>	\$ <u>0</u>	\$ <u>3,056</u>

CITY OF UNION, OREGON

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -

BUDGET AND ACTUAL - AMBULANCE REPLACEMENT FUND

FOR THE YEAR ENDED JUNE 30, 2010

	BUDGET		ACTUAL		
	Original Budget	Final Budget	Budget Basis	Adjustment	Modified Cash Basis
REVENUES:					
Interest Income	\$ 1,000	\$ 1,000	\$ 0	\$ 0	\$ 0
Donations	500	500	0	0	0
Total Revenues	1,500	1,500	0	0	0
EXPENDITURES:					
Capital Outlay	71,500	71,500	69,330	0	69,330
Total Expenditures	71,500	71,500	69,330	0	69,330
Excess of Revenues Over (Under) Expenditures	(70,000)	(70,000)	(69,330)	0	(69,330)
OTHER FINANCING (USES):					
Operating Transfers - In	0	0	0	0	0
Operating Transfers - (Out)	0	0	0	0	0
Net Changes in Fund Balance	(70,000)	(70,000)	(69,330)	0	(69,330)
FUND BALANCE - BEGINNING	70,000	70,000	70,000	0	70,000
FUND BALANCE - ENDING	\$ 0	\$ 0	\$ 670	\$ 0	\$ 670

CITY OF UNION, OREGON

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -

BUDGET AND ACTUAL - WATER/SEWER UTILITY FUND (a)

FOR THE YEAR ENDED JUNE 30, 2010

	BUDGET		ACTUAL		
	Original Budget	Final Budget	Budget Basis	Adjustments	Modified Cash Basis
REVENUES:					
Water-User Fees	\$ 270,000	\$ 270,000	\$ 295,178	\$ 0	\$ 295,178
Sewer-User Fees	411,300	411,300	428,118	0	428,118
Water Installations	3,000	3,000	6,889	0	6,889
Sewer Installations	2,000	2,000	1,800	0	1,800
Property Tax Revenues	0	0	0	61,311	61,311
Interest Income	10,000	10,000	5,277	2,875	8,152
OWRD Grant	0	0	5,000	0	5,000
Miscellaneous	5,500	5,500	12,876	15,668	28,545
Total Revenues	701,800	701,800	755,138	79,855	834,993
EXPENSES:					
Personal Services:					
Water Department	106,305	113,805	113,755	0	113,754
Sewer Department	132,120	132,120	104,495	0	104,495
Total Personal Services	238,425	245,925	218,250	0	218,248
Materials and Services:					
Water Department	114,300	115,300	100,522	0	100,521
Sewer Department	133,150	133,150	119,655	0	119,655
Total Materials and Services	247,450	248,450	220,177	0	220,176
Capital Outlay:					
Water Department	33,000	33,000	14,305	(14,305)	0
Total Capital Outlay	33,000	33,000	14,305	(14,305)	0
Debt Service:					
Interest	0	0	0	114,970	114,970
Total Debt Service	0	0	0	114,970	114,970
Depreciation	0	0	0	226,315	226,315
Contingency	73,925	65,425	0	0	0
Total Expenses	592,800	592,800	452,732	326,980	779,709
Excess of Revenues Over (Under) Expenditures	109,000	109,000	302,406	(247,125)	55,284
Other Financing Sources (Uses):					
Loan Transfers In (Out)	0	0	0	0	0
Operating Transfers In	0	0	0	334,829	334,829
Operating Transfers (Out)	(334,000)	(334,000)	(334,000)	(10,000)	(344,000)
Change in Fund Balance	(225,000)	(225,000)	(31,594)	77,704	46,113
FUND BALANCE - BEGINNING	225,000	225,000	272,527	3,297,737	3,570,264
FUND BALANCE - ENDING	\$ 0	\$ 0	\$ 240,933	\$ 3,375,441	\$ 3,616,377

(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

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -

BUDGET AND ACTUAL - WATER DEBT SERVICE FUND (b)

FOR THE YEAR ENDED JUNE 30, 2010

	BUDGET		ACTUAL		
	Original Budget	Final Budget	Budget Basis	Adjustments	Modified Cash Basis
REVENUES:					
Property Tax Revenue	\$ 48,700	\$ 48,700	\$ 49,239	\$ (49,239)	\$ 0
Interest Income	650	650	706	(706)	0
Total Revenues	49,350	49,350	49,945	(49,945)	0
EXPENSES:					
Debt Service:					
Interest Paid	2,610	2,610	2,588	(2,588)	0
Principal Paid	46,390	46,390	46,412	(46,412)	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	350	350	945	(945)	0
FUND BALANCE - BEGINNING	27,150	27,150	81,873	(81,873)	0
FUND BALANCE - ENDING	\$ 27,500	\$ 27,500	\$ 82,818	\$ (82,818)	\$ 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 REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -

BUDGET AND ACTUAL - SEWER DEBT SERVICE FUND (b)

FOR THE YEAR ENDED JUNE 30, 2010

	BUDGET		ACTUAL		
	Original Budget	Final Budget	Budget Basis	Adjustments	Modified Cash Basis
REVENUES:					
Property Tax Revenue	\$ 12,000	\$ 12,000	\$ 12,072	\$ (12,072)	\$ 0
Interest Income	1,200	1,200	324	(324)	0
Total Revenues	<u>13,200</u>	<u>13,200</u>	<u>12,396</u>	<u>(12,396)</u>	<u>0</u>
EXPENSES:					
Debt Service:					
Interest Paid	112,800	112,800	112,382	(112,382)	0
Principal Paid	42,310	42,310	42,517	(42,517)	0
Total Expenses	<u>155,110</u>	<u>155,110</u>	<u>154,899</u>	<u>(154,899)</u>	<u>0</u>
Operating Income (Loss)	<u>(141,910)</u>	<u>(141,910)</u>	<u>(142,503)</u>	<u>142,503</u>	<u>0</u>
OTHER FINANCING SOURCES (USES):					
Operating Transfers In	<u>144,000</u>	<u>144,000</u>	<u>144,000</u>	<u>(144,000)</u>	<u>0</u>
Change in Fund Balance	2,090	2,090	1,497	(1,497)	0
FUND BALANCE - BEGINNING	<u>81,250</u>	<u>81,250</u>	<u>153,506</u>	<u>(153,506)</u>	<u>0</u>
FUND BALANCE - ENDING	<u>\$ 83,340</u>	<u>\$ 83,340</u>	<u>\$ 155,003</u>	<u>\$ (155,003)</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

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -

BUDGET AND ACTUAL - WATER RESERVE FUND (b)

FOR THE YEAR ENDED JUNE 30, 2010

	BUDGET		ACTUAL		
	Original Budget	Final Budget	Budget Basis	Adjustment	Modified Cash Basis
REVENUES:					
Water Connection fees	\$ 600	\$ 600	\$ 0	\$ 0	\$ 0
Interest	1,000	1,000	1,170	(1,170)	0
Total Revenues	1,600	1,600	1,170	(1,170)	0
EXPENSES:					
Capital Outlay	338,540	338,540	68,623	(68,623)	0
Excess of Revenues Over (Under) Expenditures	(336,940)	(336,940)	(67,453)	67,453	0
OTHER FINANCING SOURCES (USES):					
Interfund Loan Transfers In	4,940	4,940	5,372	(5,372)	0
Operating Transfers In	90,000	90,000	90,000	(90,000)	0
Operating Transfers (Out)	(10,000)	(10,000)	(10,000)	10,000	0
Total Transfers	84,940	84,940	85,372	(85,372)	0
Change in Fund Balance	(252,000)	(252,000)	17,919	(17,919)	0
FUND BALANCE - BEGINNING	252,000	252,000	245,331	(245,331)	0
FUND BALANCE - ENDING	\$ 0	\$ 0	\$ 263,250	\$ (263,250)	\$ 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 REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -

BUDGET AND ACTUAL - SEWER RESERVE FUND (b)

FOR THE YEAR ENDED JUNE 30, 2010

	BUDGET		ACTUAL		
	Original Budget	Final Budget	Budget Basis	Adjustment	Modified Cash Basis
REVENUES:					
Interest	\$ 708	\$ 708	\$ 675	\$ (675)	\$ 0
Total Revenues	<u>708</u>	<u>708</u>	<u>675</u>	<u>(675)</u>	<u>0</u>
EXPENSES:					
Material & Services	30,000	30,000	432	(432)	0
Capital Outlay	<u>49,568</u>	<u>49,568</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Expenditures	<u>79,568</u>	<u>79,568</u>	<u>432</u>	<u>(432)</u>	<u>0</u>
Excess of Revenues Over (Under) Expenditures	<u>(78,860)</u>	<u>(78,860)</u>	<u>244</u>	<u>(244)</u>	<u>0</u>
OTHER FINANCING SOURCES (USES):					
Interund Loan Transfers In	8,060	8,060	8,492	(8,492)	0
Operating Transfers In	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>(100,000)</u>	<u>0</u>
Total Other Financing Sources	<u>108,060</u>	<u>108,060</u>	<u>108,492</u>	<u>(108,492)</u>	<u>0</u>
Change in Fund Balance	29,200	29,200	108,736	(108,736)	0
FUND BALANCE - BEGINNING	<u>128,000</u>	<u>128,000</u>	<u>110,182</u>	<u>(110,182)</u>	<u>0</u>
FUND BALANCE - ENDING	<u>\$ 157,200</u>	<u>\$ 157,200</u>	<u>\$ 218,918</u>	<u>\$ (218,918)</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

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -

BUDGET AND ACTUAL - WATER REPAIR FUND (b)

FOR THE YEAR ENDED JUNE 30, 2010

	BUDGET		ACTUAL		
	Original Budget	Final Budget	Budget Basis	Adjustments	Modified Cash Basis
REVENUES:					
Interest Income	\$ 145	\$ 145	\$ 0	\$ 0	\$ 0
System Development Charge	10,755	10,755	8,261	(8,261)	0
Total Revenues	10,900	10,900	8,261	(8,261)	0
EXPENSES:					
Capital Outlay	12,500	12,500	0	0	0
Total Expenses	12,500	12,500	0	0	0
Change in Fund Balance	(1,600)	(1,600)	8,261	(8,261)	0
FUND BALANCE - BEGINNING	4,600	4,600	4,579	(4,579)	0
FUND BALANCE - ENDING	\$ 3,000	\$ 3,000	\$ 12,841	\$ (12,841)	\$ 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 REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -

BUDGET AND ACTUAL - SEWER REPAIR FUND (b)

FOR THE YEAR ENDED JUNE 30, 2010

	BUDGET		ACTUAL		
	Original Budget	Final Budget	Budget Basis	Adjustments	Modified Cash Basis
REVENUES:					
Interest Income	\$ 76	\$ 76	\$ 0	\$ 0	\$ 0
System Development Charge	3,774	3,774	3,823	(3,823)	0
Total Revenues	<u>3,850</u>	<u>3,850</u>	<u>3,823</u>	<u>(3,823)</u>	<u>0</u>
EXPENSES:					
Capital Outlay	6,000	6,000	0	0	0
Total Expenses	<u>6,000</u>	<u>6,000</u>	<u>0</u>	<u>0</u>	<u>0</u>
Change in Fund Balance	(2,150)	(2,150)	3,823	(3,823)	0
FUND BALANCE - BEGINNING	<u>4,450</u>	<u>4,450</u>	<u>4,413</u>	<u>(4,413)</u>	<u>0</u>
FUND BALANCE - ENDING	<u>\$ 2,300</u>	<u>\$ 2,300</u>	<u>\$ 8,236</u>	<u>\$ (8,236)</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

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -

BUDGET AND ACTUAL - WATER NEW GROWTH FUND (b)

FOR THE YEAR ENDED JUNE 30, 2010

	BUDGET		ACTUAL		
	Original Budget	Final Budget	Budget Basis	Adjustments	Modified Cash Basis
REVENUES:					
Interest Income	\$ 31	\$ 31	\$ 0	\$ 0	\$ 0
System Development Charge	1,044	1,044	3,584	(3,584)	0
Total Revenues	1,075	1,075	3,584	(3,584)	0
EXPENSES:					
Capital Outlay	6,000	6,000	0	0	0
Total Expenses	6,000	6,000	0	0	0
Change in Fund Balance	(4,925)	(4,925)	3,584	(3,584)	0
FUND BALANCE - BEGINNING	6,125	6,125	7,516	(7,516)	0
FUND BALANCE - ENDING	\$ 1,200	\$ 1,200	\$ 11,100	\$ (11,100)	\$ 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, 2010

	<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, 2009	\$ 0	\$ 0	\$ 0	\$ 0
Treasurers' Receipts:				
Current year's taxes plus interest	164,283	105,512	58,771	0
Prior years' taxes plus interest	<u>7,093</u>	<u>4,162</u>	<u>2,540</u>	<u>391</u>
Total Property Tax Plus Interest	171,376	109,674	61,311	391
Foreclosure Revenues	0	0	0	0
Payment in Lieu of Tax	47	30	17	0
Fish & Wildlife	86	55	31	0
Bank Interest	<u>17</u>	<u>11</u>	<u>6</u>	<u>0</u>
Total Treasurers' Receipts	<u>171,526</u>	<u>109,770</u>	<u>61,365</u>	<u>391</u>
Total Available for Disbursement	<u>171,526</u>	<u>109,770</u>	<u>61,365</u>	<u>391</u>
Treasurers Disbursements:				
Turnover to City of Union	<u>171,526</u>	<u>109,770</u>	<u>61,365</u>	<u>391</u>
Cash on hand with County Treasurer from property taxes June 30, 2010	<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, 2010

	Taxes Receivable July 1, 2009	Current Net Levy	Adjustments	Discounts Allowed	Taxes Collected	Taxes Receivable June 30, 2010
CITY OF UNION #752						
2009-10	\$	\$ 112,932	\$ (142)	\$ (2,832)	\$ 105,453	\$ 4,505
2008-09			(105)	0	2,307	1,741
2007-08	4,153		(177)	0	546	927
2006-07	1,850		(60)	0	364	391
2005-06	815		(53)	0	232	31
2004-05	316		(6)	0	2	29
2003-04	37		0	0	0	16
All Prior Years	16		11	0	2	76
	67					
Total Tax Transaction	\$ 7,054	\$ 112,932	\$ (532)	\$ (2,832)	108,906	\$ 7,716
Interest Collections					769	
Total Collections					\$ 109,675	

	Taxes Receivable July 1, 2009	Current Net Levy	Adjustments	Discounts Allowed	Taxes Collected	Taxes Receivable June 30, 2010
UNION BONDS #753						
2009-10	\$	\$ 62,904	\$ (79)	\$ (1,578)	\$ 58,738	\$ 2,509
2008-09			(61)	0	1,359	1,026
2007-08	2,446		(109)	0	333	566
2006-07	1,008		(40)	0	240	258
2005-06	538		(26)	0	162	20
2004-05	208		(5)	0	1	19
2003-04	25		0	0	0	11
All Prior Years	11		3	0	1	29
	27					
Total Tax Transaction	\$ 4,263	\$ 62,904	\$ (317)	\$ (1,578)	60,834	\$ 4,438
Interest Collections					475	
Total Collections					\$ 61,310	

	Taxes Receivable July 1, 2009	Current Net Levy	Adjustments	Discounts Allowed	Taxes Collected	Taxes Receivable June 30, 2010
UNION LOCAL OPTION #767						
2009-10	\$	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
2008-09			0	0	0	0
2007-08	0		0	0	0	0
2006-07	368		(27)	0	164	177
2005-06	143		(18)	0	111	14
2004-05	19		(4)	0	1	14
2003-04	8		0	0	0	8
All Prior Years	9		(9)	0	0	0
	9					
Total Tax Transaction	\$ 547	\$ 0	\$ (58)	\$ 0	276	\$ 213
Interest Collections					114	
Total Collections					\$ 390	

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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, 2010

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, 2010 and have issued our report thereon dated October 11, 2010.

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 October 11, 2010.

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 eliminating the Water Debt Service Fund when the debt is paid off in 2011. 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, 2010

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 2009-10 appears to have complied with ORS. 294 and other appropriate Oregon laws and regulations except as follows:

- (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. These errors were subsequently corrected by resolution on December 14, 2009.
- (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.

CITY OF UNION
 UNION COUNTY, OREGON
 AUDIT COMMENTS & DISCLOSURES, CONTINUED
 JUNE 30, 2010

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

The preparation, adoption and execution of the City budget and tax levies for fiscal year 2010-11 appears to have substantially 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 Building Maintenance Reserve Fund has no corresponding budgeted transfer out of another fund. A budgeted transfer out of the Water/Sewer Utility Fund has no corresponding transfer in budgeted in another fund.
- (3) There were numerous small errors in the 1st and 2nd proceeding year columns in the detail budget document where the amounts did not agree with the prior years audited financial statements.
- (4) The publication of the LB forms had adopted budget amounts instead of actual amounts for the 1st preceding year. In some instances amounts from the budget as proposed rather than as adopted by the budget committee were published. Three non major funds were missed in the publication of the LB-2 forms.
- (5) Resolution 2010-12, adopting the 2010-2011 budget had an error where a proposed budget amount was listed on the resolution which was \$5,000 less than the amount approved by the budget committee and intended to be adopted. There was also an error where Unappropriated Ending Fund Balance was labeled Contingency in the budget resolution

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:

For the year ended June 30, 2010, the City had the following instances where expenditures exceeded appropriations at the legal level of control in individual funds.

<u>Fund</u>	<u>Object Category</u>	<u>Expenditures Exceeding Appropriations</u>
General Fund - Planning Dept.	Personal Services	\$ 878
Building Maintenance Reserve	Personal Services	\$ 582

CITY OF UNION
UNION COUNTY, OREGON
AUDIT COMMENTS & DISCLOSURES
JUNE 30, 2010

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

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..".

C. Tax Levies:

The City's 2009-2010 and 2010-2011 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 must also notify the Oregon State Treasurer of any change in the banks it uses. The City was in compliance with these provisions during the 2009-2010 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, 2010. 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, 2010. 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.

CITY OF UNION
UNION COUNTY, OREGON
AUDIT COMMENTS & DISCLOSURES
JUNE 30, 2010

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.

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, 2010.

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, 2010,

Guyer & Associates

Certified Public Accountants
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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**

October 11, 2010

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, 2010, which collectively comprise the City of Union, Oregon's basic financial statements and have issued our report thereon dated October 11, 2010. 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 effectiveness of the City of Union, Oregon's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings as 2010-1 that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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To The Mayor and Councilors
City of Union, Oregon
October 11, 2010

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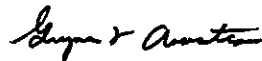
Compliance and Other Matters

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 October 11, 2010.

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 response and, accordingly, we express no opinion on it.

This report is intended for the information and use of management, City Council, others within the entity, 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.



Guyer & Associates
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CITY OF UNION, OREGON
SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended June 30, 2010

FINDINGS:

2010-1 The system of internal control over financial statement reporting of the City of Union is designed with proper segregation of duties. In the event that an employee is absent from work due to vacation or otherwise, certain employees have to perform the duties of the absent employee and the segregation of duties breaks down. This lack of segregation of duties results in more than a remote chance of an error being undetected. The City has other procedures in place that mitigate some of the effect of this lack of segregation of duties.

RESPONSES:

2010-1 The City of Union is a small city and does not have the resources to enable the hiring of an employee to cover for absent employees. The City has integrated members of the City Council and Mayor into the internal control procedures. We are exploring ways to expand this Council and Mayoral involvement in the system of internal control to mitigate the lack of segregation of duties caused by employee absences.

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