

CITY OF UNION, OHIO
MONTGOMERY COUNTY
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
DECEMBER 31, 2001



**Auditor of State
Betty Montgomery**

Honorable Mayor, Members of the City
Council and City Mayor
City of Union
118 N. Main Street
Union, Ohio 45322

We have reviewed the Independent Auditor's Reports of the City of Union, Montgomery County, prepared by Roth and Company, for the audit period January 1, 2001 to December 31, 2002. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

August 7, 2003

This Page Intentionally Left Blank

City of Union, Ohio

TABLE OF CONTENTS

<u>TITLE</u>	<u>PAGE</u>
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS	5
GENERAL PURPOSE FINANCIAL STATEMENTS	
COMBINED BALANCE SHEET ALL FUND TYPES AND ACCOUNT GROUPS	6-9
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND	10
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (BUDGET BASIS) ALL GOVERNMENTAL FUND TYPES	12
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS ALL PROPRIETARY FUND TYPES	14
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY - BUDGET AND ACTUAL (BUDGET BASIS) ALL PROPRIETARY FUND TYPES	15
COMBINED STATEMENT OF CASH FLOWS ALL PROPRIETARY FUND TYPES	16-17
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS	18-49

This Page Intentionally Left Blank

Roth & Company, CPA's
215 W. National Road
Englewood, Ohio 45322

Report of Independent Certified Public Accountants

Honorable Mayor, Members of the City
Council and City Manager
City of Union, Ohio

We have audited the accompanying general purpose financial statements of the City of Union, Ohio, as of and for the year ended December 31, 2001, as listed in the foregoing table of contents. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Union, Ohio, at December 31, 2001 and the results of its operations and cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated June 3, 2003, on our consideration of City of Union's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Roth & Company
Englewood, Ohio
June 3, 2003

City of Union, Ohio - Montgomery County

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS

December 31, 2001

	<u>GOVERNMENTAL FUND TYPES</u>		
	<u>General Fund</u>	<u>Special Revenue</u>	<u>Capital Projects</u>
ASSETS AND OTHER DEBITS			
Assets			
Equity in pooled cash and cash equivalents	\$ 356,163	\$ 533,755	\$ 52,019
Receivables			
Taxes	131,749	605,063	203,157
Accounts	21,340	7,672	-
Special assessments	-	277,372	-
Intergovernmental receivable	11,161	14,070	-
Prepaid items	2,805	530	-
Supplies inventory	3,869	9,951	-
Fixed assets			
Land	-	-	-
Buildings	-	-	-
Equipment	-	-	-
Infrastructure	-	-	-
Construction in progress	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Less: Accumulated depreciation	<u>-</u>	<u>-</u>	<u>-</u>
Net fixed assets	-	-	-
Other debits			
Amount to be provided for retirement of general long-term obligations	<u>-</u>	<u>-</u>	<u>-</u>
Total assets and other debits	<u>\$ 527,087</u>	<u>\$ 1,448,413</u>	<u>\$ 255,176</u>

<u>PROPRIETARY FUND TYPE</u>	<u>FIDUCIARY FUND TYPE</u>	<u>ACCOUNT GROUPS</u>		<u>Total (Memorandum Only)</u>
		<u>General Fixed Assets</u>	<u>General Long-Term Obligations</u>	
<u>Enterprise</u>	<u>Expendable Trust</u>			
\$ 521,560	\$ 1,154	\$ -	\$ -	\$ 1,464,651
-	20,980	-	-	960,949
80,030	-	-	-	109,042
-	-	-	-	277,372
-	-	-	-	25,231
1,292	-	-	-	4,627
1,257	-	-	-	15,077
-	-	561,586	-	561,586
2,929,656	-	385,865	-	3,315,521
723,655	-	1,491,116	-	2,214,771
8,581,915	-	-	-	8,581,915
-	-	142,635	-	142,635
12,235,226	-	2,581,202	-	14,816,428
<4,224,308>	-	-	-	<4,224,308>
8,010,918	-	2,581,202	-	10,592,120
-	-	-	355,470	355,470
<u>\$ 8,615,057</u>	<u>\$ 22,134</u>	<u>\$ 2,581,202</u>	<u>\$ 355,470</u>	<u>\$ 13,804,539</u>

City of Union, Ohio - Montgomery County

COMBINED BALANCE SHEET (CONTINUED)
ALL FUND TYPES AND ACCOUNT GROUPS

December 31, 2001

	<u>GOVERNMENTAL FUND TYPES</u>		
	<u>General</u>	<u>Special</u>	<u>Capital</u>
	<u>Fund</u>	<u>Revenue</u>	<u>Projects</u>
LIABILITIES, FUND EQUITY AND OTHER CREDITS			
Liabilities			
Accounts payable	\$ 7,235	\$ 2,374	\$ 283
Contracts payable	38,021	17,062	-
Accrued salaries payable	1,134	10,773	-
Accrued interest payable	2,155	1,357	-
Intergovernmental payable	480	12,890	-
Deferred revenue	131,749	882,435	203,157
Compensated absences payable	-	771	-
Notes payable	157,200	99,000	-
General Obligation Bonds Payable	-	-	-
Capital lease obligation	-	-	-
Total liabilities	<u>337,974</u>	<u>1,026,662</u>	<u>203,440</u>
Fund equity and other credits			
Contributed capital			
Less depreciation on fixed assets	-	-	-
Net contributed capital	-	-	-
Investment in general fixed assets	-	-	-
Retained earnings			
Unreserved	-	-	-
Fund balances			
Reserved for supplies inventory	3,869	9,951	-
Unreserved	<u>185,244</u>	<u>411,800</u>	<u>51,736</u>
Total fund equity and other credits	<u>189,113</u>	<u>421,751</u>	<u>51,736</u>
Total liabilities, fund equity and other credits	<u>\$ 527,087</u>	<u>\$1,448,413</u>	<u>\$255,176</u>

The accompanying notes are an integral part of this statement.

<u>PROPRIETARY FUND TYPE</u>	<u>FIDUCIARY FUND TYPE</u>	<u>ACCOUNT GROUPS</u>			<u>Total (Memorandum Only)</u>
		<u>Enterprise</u>	<u>Expendable Trust</u>	<u>General Fixed Assets</u>	
\$ 10,367	\$ -	\$ -	\$ -	\$ 20,259	
-	-	-	-	55,083	
5,501	-	-	-	17,408	
6,001	-	-	-	9,513	
9,590	-	-	29,122	52,082	
-	20,980	-	-	1,238,321	
55,232	-	-	67,988	123,991	
366,600	-	-	-	622,800	
276,640	-	-	258,360	535,000	
<u>107,117</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>107,117</u>	
837,048	20,980	-	355,470	2,781,574	
7,021,565	-	-	-	7,021,565	
<u>2,042,560</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,042,560</u>	
4,979,005	-	-	-	4,979,005	
-	-	2,581,202	-	2,581,202	
2,799,004	-	-	-	2,799,004	
-	-	-	-	13,820	
<u>-</u>	<u>1,154</u>	<u>-</u>	<u>-</u>	<u>649,934</u>	
<u>7,778,009</u>	<u>1,154</u>	<u>2,581,202</u>	<u>-</u>	<u>11,022,965</u>	
<u>\$8,615,057</u>	<u>\$ 22,134</u>	<u>\$2,581,202</u>	<u>\$ 355,470</u>	<u>\$13,804,539</u>	

City of Union, Ohio - Montgomery County

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND

Year Ended December 31, 2001

REVENUES

Property and other taxes
Intergovernmental
Special assessments
Charges for services
Fines, licenses and permits
Interest
Other
Total revenues

EXPENDITURES

Current
Security of persons and property
Public health services
Leisure time activities
Community environment
Transportation
General government
Capital outlay
Debt service
Principal retirement
Interest and fiscal charges
Total expenditures

Excess of revenues over <under> expenditures

Other financing sources <uses>
Proceeds from the sale of fixed assets
Operating transfers - in
Operating transfers - out
Total other financing sources <uses>

Excess of revenues and other financing sources over
<under> expenditures and other financing uses

Fund balance at January 1, 2001
Increase in reserve for inventory

Fund balance at December 31, 2001

The accompanying notes are an integral part of this statement.

<u>GOVERNMENTAL FUND TYPES</u>			<u>FIDUCIARY FUND TYPE</u>	Total (Memorandum Only)
<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>	
\$ 119,658	\$ 553,796	\$ 149,673	\$ 18,978	\$ 842,105
185,356	386,920	18,867	2,473	593,616
-	243,911	-	-	243,911
43,512	338,061	-	-	381,573
107,978	4,900	-	-	112,878
15,708	16,266	2,189	176	34,339
<u>38,433</u>	<u>26,359</u>	<u>257</u>	<u>-</u>	<u>65,049</u>
510,645	1,570,213	170,986	21,627	2,273,471
-	828,339	-	53,424	881,763
-	10,307	-	-	10,307
-	63,279	-	-	63,279
-	268,631	-	-	268,631
-	136,259	54,331	-	190,590
406,350	-	-	-	406,350
177,703	177,458	28,114	-	383,275
-	8,750	51,250	-	60,000
<u>5,207</u>	<u>3,269</u>	<u>8,468</u>	<u>-</u>	<u>16,944</u>
589,260	1,496,292	142,163	53,424	2,281,139
<78,615>	73,921	28,823	<31,797>	<7,668>
-	269	-	-	269
201,000	64,300	-	31,000	296,300
<u><67,175></u>	<u><145,571></u>	<u><2,310></u>	<u>-</u>	<u><215,056></u>
133,825	<81,002>	<2,310>	31,000	81,513
55,210	<7,081>	26,513	<797>	73,845
134,384	419,554	25,223	1,951	581,112
<u><481></u>	<u>9,278</u>	<u>-</u>	<u>-</u>	<u>8,797</u>
<u>\$ 189,113</u>	<u>\$ 421,751</u>	<u>\$ 51,736</u>	<u>\$ 1,154</u>	<u>\$ 663,754</u>

City of Union, Ohio - Montgomery

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (BUDGET BASIS)
ALL GOVERNMENTAL FUND TYPES

Year Ended December 31, 2001

	GENERAL FUND			Revised Budget
	Revised Budget	Actual	Variance Favorable <Unfavorable>	
REVENUES				
Property and other taxes	\$ 113,300	\$ 119,658	\$ 6,358	\$ 512,423
Intergovernmental	159,269	185,429	26,160	317,239
Special assessments	-	-	-	237,749
Charges for services	-	43,512	43,512	220,206
Fines, licenses, permits	37,080	107,978	70,898	4,000
Interest	4,500	15,708	11,208	5,750
Other	-	37,693	37,693	15,411
Total revenues	314,149	509,978	195,829	1,312,778
EXPENDITURES				
Current				
Security of persons and property	-	-	-	839,514
Public health services	-	-	-	11,407
Leisure time activities	-	-	-	65,030
Community Environment	-	-	-	269,946
Transportation	-	-	-	144,343
General government	383,769	371,643	12,126	-
Capital outlay	182,827	177,703	5,124	306,296
Debt service				
Principal retirement	65,000	65,000	-	17,500
Interest and fiscal charges	3,053	3,052	1	3,825
Total expenditures	634,649	617,398	17,251	1,657,861
EXCESS OF REVENUES OVER <UNDER> EXPENDITURES	<320,500>	<107,420>	213,080	<345,083>
OTHER FINANCING SOURCES <USES>				
Proceeds from sale of notes	229,634	358,200	128,566	-
Proceeds from sale of fixed assets	-	-	-	-
Operating transfers - in	-	-	-	64,300
Operating transfers - out	<68,175>	<67,175>	1,000	<31,000>
Total other financing sources <uses>	161,459	291,025	129,566	33,300
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER <UNDER> EXPENDITURES AND OTHER FINANCING USES	<159,041>	183,605	342,646	<311,783>
FUND BALANCES AT JANUARY 1, 2001	172,561	172,561	-	449,957
FUND BALANCES AT DECEMBER 31, 2001	\$ 13,520	\$ 356,166	\$ 342,646	\$ 138,174

The accompanying notes are an integral part of this statement.

SPECIAL REVENUE FUNDS		CAPITAL PROJECT FUND			EXPENDABLE TRUST FUND		
Actual	Variance Favorable <Unfavorable>	Revised Budget	Actual	Variance Favorable <Unfavorable>	Revised Budget	Actual	Variance Favorable <Unfavorable>
\$ 553,796	\$ 41,373	\$136,277	\$ 149,673	\$ 13,396	\$ 18,200	\$ 18,978	\$ 778
385,835	68,596	-	18,867	18,867	4,020	2,473	<1,547>
243,911	6,162	-	-	-	-	-	-
330,389	110,183	-	-	-	-	-	-
4,900	900	-	-	-	-	-	-
16,266	10,516	1,000	2,189	1,189	1,319	176	<1,143>
26,359	10,948	-	257	257	-	-	-
<u>1,561,456</u>	<u>248,678</u>	<u>137,277</u>	<u>170,986</u>	<u>33,709</u>	<u>23,539</u>	<u>21,627</u>	<u><1,912></u>
830,818	8,696	-	-	-	54,559	53,424	1,135
10,407	1,000	-	-	-	-	-	-
63,480	1,550	-	-	-	-	-	-
267,823	2,123	-	-	-	-	-	-
139,922	4,421	57,741	56,760	981	-	-	-
-	-	-	-	-	-	-	-
177,458	128,838	28,115	28,114	1	-	-	-
17,500	-	51,250	51,250	-	-	-	-
3,824	1	8,470	8,468	2	-	-	-
<u>1,511,232</u>	<u>146,629</u>	<u>145,576</u>	<u>144,592</u>	<u>984</u>	<u>54,559</u>	<u>53,424</u>	<u>1,135</u>
50,224	395,307	<8,299>	26,394	34,693	<31,020>	<31,797>	<777>
-	-	-	-	-	-	-	-
269	269	-	-	-	-	-	-
64,300	-	-	-	-	31,000	31,000	-
<31,000>	-	-	-	-	-	-	-
33,569	269	-	-	-	31,000	31,000	-
83,793	395,576	<8,299>	26,394	34,693	<20>	<797>	<777>
<u>449,957</u>	<u>-</u>	<u>25,626</u>	<u>25,626</u>	<u>-</u>	<u>1,953</u>	<u>1,953</u>	<u>-</u>
<u>\$ 533,750</u>	<u>\$ 395,576</u>	<u>\$ 17,327</u>	<u>\$ 52,020</u>	<u>\$ 34,693</u>	<u>\$ 1,933</u>	<u>\$ 1,156</u>	<u>\$ <777></u>

City of Union, Ohio - Montgomery County
 COMBINED STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN RETAINED EARNINGS
 ALL PROPRIETARY FUND TYPES

Year Ended December 31, 2001

	<u>Enterprise Funds</u>
Operating revenues	
Charges for services	\$ 937,934
Tap-in-fees	61,800
Other	<u>62,922</u>
Total operating revenues	1,062,656
Operating expenses	
Personal services	394,803
Contractual services	343,152
Supplies and materials	54,912
Depreciation	<u>300,217</u>
Total operating expenses	<u>1,093,084</u>
Operating loss	<30,428>
Non-operating revenues <expenses>	
Other financing sources	
Interest	17,269
Grants	9,257
Gain on disposal of fixed assets	751
Interest and fiscal charges	<u><36,342></u>
Total non-operating revenues <expenses>	<u><9,065></u>
Net loss before operating transfers	<39,493>
Operating transfers - in	40,947
Operating transfers - out	<u><122,191></u>
Net loss	<120,737>
Depreciation on contributed fixed assets	<u>143,377</u>
Increase in retained earnings	22,640
Retained earnings at January 1, 2001	<u>2,776,364</u>
Retained earnings at December 31, 2001	<u>\$2,799,004</u>

The accompanying notes are an integral part of this statement.

City of Union, Ohio - Montgomery County

COMBINED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND EQUITY - BUDGET AND ACTUAL (BUDGET BASIS)
ALL PROPRIETARY FUND TYPES

Year Ended December 31, 2001

	<u>ENTERPRISE FUNDS</u>		
	<u>Revised Budget</u>	<u>Actual</u>	Variance Favorable <Unfavorable>
Revenues			
Charges for services	\$ 732,678	\$ 953,388	\$ 220,710
Tap-in-fees	48,000	61,800	13,800
Other	9,507	62,922	53,415
Interest	7,853	17,269	9,416
Proceeds from sale of notes	264,500	264,600	100
Grants	<u>89,219</u>	<u>98,511</u>	<u>9,292</u>
Total revenues	1,151,757	1,458,490	306,733
Expenses			
Personal services	396,662	387,426	9,236
Contractual services	279,220	291,372	<12,152>
Materials and supplies	58,255	52,614	5,641
Capital outlay	331,173	294,525	36,648
Debt service			
Principal retirement	388,650	388,650	-
Interest and fiscal charges	<u>32,097</u>	<u>32,094</u>	<u>3</u>
Total expenses	1,486,057	1,446,681	39,376
Excess of revenues over <under> expenses before operating transfer	<334,300>	11,809	346,109
Transfer - in	<u>-</u>	<u>2,875</u>	<u>2,875</u>
Excess of revenues over <under> expenses	<334,300>	14,684	348,984
Fund equity at January 1, 2001	<u>506,877</u>	<u>506,876</u>	<u>-</u>
Fund equity at December 31, 2001	\$ <u>172,577</u>	\$ <u>521,560</u>	\$ <u>348,984</u>

The accompanying notes are an integral part of this statement.

City of Union, Ohio - Montgomery County

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES

Year Ended December 31, 2001

	<u>Enterprise</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$1,078,110
Cash payments to employees for services and benefits	<387,426>
Cash payments to suppliers for goods and services	<u><389,190></u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	301,494
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Operating transfer - in	40,947
Operating transfer - out	<u><122,191></u>
NET CASH FLOWS PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<81,244>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	<138,409>
Proceeds from state grant	9,257
Proceeds from sale of notes	366,600
Principal paid on notes payable	<332,400>
Interest paid on notes payable	<17,071>
Principal paid on general obligation bonds payable	<65,000>
Interest paid on general obligation bonds payable	<16,935>
Principal paid on capital lease obligation	<24,225>
Interest paid on capital lease obligation	<u><4,652></u>
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<222,835>
NET CASH PROVIDED BY INVESTING ACTIVITIES - Interest and dividends on investments	<u>17,269</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	14,684
CASH AND CASH EQUIVALENTS JANUARY 1, 2001	<u>506,876</u>
CASH AND CASH EQUIVALENTS DECEMBER 31, 2001	\$ <u><u>521,560</u></u>

City of Union, Ohio - Montgomery County
 COMBINED STATEMENT OF CASH FLOWS (CONTINUED)
 ALL PROPRIETARY FUND TYPES

Year Ended December 31, 2001

	<u>Enterprise</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating loss	\$ <30,428>
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	300,217
Changes in assets and liabilities	
Decrease in accounts receivable	15,454
Increase in prepaid items	<734>
Increase in accounts payable	9,608
Increase in accrued salaries	373
Increase in intergovernmental payable	1,144
Increase in compensated absences payable	<u>5,860</u>
Net cash provided by operating activities	<u>\$ 301,494</u>

NONCASH CAPITAL FINANCING ACTIVITIES

Developers contributed water lines, sewer lines in the amount of \$391,221 and \$375,318, respectively.

The accompanying notes are an integral part of this statement.

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

December 31, 2001

NOTE A - REPORTING ENTITY AND BASIS OF PRESENTATION

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

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

1. REPORTING ENTITY

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

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

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing body and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the budget, the issuance of debt or the levying of taxes.

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2001

NOTE A - REPORTING ENTITY AND BASIS OF PRESENTATION (CONTINUED)

1. REPORTING ENTITY (CONTINUED)

The following potential component unit has been excluded from the City's financial statements because the City is not financially accountable for it nor is the entity fiscally dependent on the City:

The Union Elementary School is a distinct political subdivision of the State of Ohio operated under the direction of an elected school board which possesses its own budgeting and taxing authority and which is not fiscally dependent on the City.

2. BASIS OF PRESENTATION - FUND ACCOUNTING

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

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

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

3. GOVERNMENTAL FUND TYPES

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

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2001

NOTE A - REPORTING ENTITY AND BASIS OF PRESENTATION (CONTINUED)

3. GOVERNMENTAL FUND TYPES (CONTINUED)

proprietary funds) are accounted for through governmental funds. The following are the City's governmental fund types:

a. General Fund

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

b. Special Revenue Funds

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

c. Capital Projects Funds

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

4. PROPRIETARY FUND TYPES

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

a. Enterprise Funds

These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that costs (expenses, including depreciation) of providing services to the general public on a continuing basis be recovered or financed primarily through user charges or where it has

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2001

NOTE A - REPORTING ENTITY AND BASIS OF PRESENTATION (CONTINUED)

4. PROPRIETARY FUND TYPES (CONTINUED)

a. Enterprise Funds (CONTINUED)

been decided that a periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

5. FIDUCIARY FUNDS

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

6. ACCOUNT GROUPS

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

a. General Fixed Assets Account Group

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

b. General Long-Term Obligations Account Group

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

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to generally accepted accounting principles

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2001

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for local governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board and other recognized authoritative sources.

1. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Pursuant to GASB Statement No. 20: Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting, the City follows GASB guidance as applicable to proprietary funds and Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

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

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

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

All governmental fund types, expendable trust funds and agency funds are accounted for using the modified accrual basis of accounting. Under this basis, revenues are recognized in the accounting period when they become both measurable and available. Measurable means the amount of the transaction can

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2001

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)

be determined and available means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current year. The available period is thirty-one days after year-end.

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

The City reports deferred revenues in its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. In the subsequent period, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Current and delinquent property taxes measurable as of December 31, 2001, whose availability is indeterminate and which are not intended to finance current period obligations, have been recorded as a receivable and deferred revenue. Levied special assessments are measurable, and have been recorded as a receivable. Since all assessments are due outside the available period, the entire amount has been deferred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year, and under GASB 16 the cost of accumulated unpaid vacation and sick leave are reported as fund liabilities in the period in which they will be liquidated with available financial resources rather than in the period earned by employees. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2001

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)

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

2. BUDGETARY PROCESS

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the object level (personal services and other expenditures) within each department. Budgetary modifications may only be made by resolution of the City Council.

3. TAX BUDGET

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

4. ESTIMATED RESOURCES

The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and revises estimated revenues. The commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2001

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4. ESTIMATED RESOURCES (CONTINUED)

annual appropriation ordinance. On or about January 1, the certificate of estimated resources is amended to include unencumbered fund balances at December 31 of the preceding year. The certificate may be further amended during the year if the fiscal officer determines that the revenue collected is greater or less than the current estimates. The amounts reported on the budgetary statements reflect the amounts in the final amended official certificate of estimated resources issued during 2001.

5. APPROPRIATIONS

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

6. ENCUMBRANCES

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditures of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations. On the GAAP basis, encumbrances outstanding at year-end are reported as reservations of fund balances for subsequent-year expenditure for governmental funds and reported in the notes to the financial statements for proprietary funds.

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2001

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

7. LAPSING OF APPROPRIATIONS

All encumbrances lapse at the close of each year and must be re-appropriated. At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

8. CASH AND CASH EQUIVALENTS

Cash balances of the City's funds, except cash held by fiscal agent, are pooled and invested in short-term investments in order to provide improved cash management. Individual fund integrity is maintained through City records. Each fund's interest in the pooled bank account is presented on the balance sheet as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet. Investments are stated at cost which approximates fair value. For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments with original maturities of three months or less and investments of the cash management pool are considered to be cash equivalents. Interest income is distributed to the funds according to charter and statutory requirements. Interest revenue earned during 2001 amounted to \$51,506.

9. SUPPLIES INVENTORY

Inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental fund types when purchased and as expenses in the proprietary fund types when used. Reported supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2001

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

10. FIXED ASSETS AND DEPRECIATION

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

General Fixed Assets

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

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

Proprietary Fund Fixed Assets

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

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2001

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

10. PROPRIETARY FUND FIXED ASSETS (CONTINUED)

Buildings	45 years
Land Improvements other than Buildings	45 years
Equipment	6 - 15 years
Vehicles	6 years
Infrastructure Sewer Lines, Water Lines and Storm Sewers	45 years

11. COMPENSATED ABSENCES

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

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

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

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

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2001

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

11. COMPENSATED ABSENCES (CONTINUED)

liability, while the balance of the liability is recorded in the general long-term obligations account group.

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

12. CONTRIBUTED CAPITAL

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

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

13. RESERVATIONS AND DESIGNATION OF FUND EQUITY

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

14. INTERGOVERNMENTAL REVENUES

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

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2001

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

14. INTERGOVERNMENTAL REVENUES (CONTINUED)

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

15. INTERFUND TRANSACTIONS

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

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

16. LONG-TERM OBLIGATIONS

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

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2001

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

16. LONG-TERM OBLIGATIONS (CONTINUED)

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

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

17. USE OF ESTIMATES

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

18. TOTAL COLUMNS ON GENERAL PURPOSE FINANCIAL STATEMENTS

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

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2001

NOTE C - BUDGET TO GAAP RECONCILIATION

1. BUDGETARY BASIS OF ACCOUNTING

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

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

- a. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
- b. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
- c. Proceeds from and principal payments on short-term note obligations are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).

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

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2001

NOTE C - BUDGET TO GAAP RECONCILIATION (CONTINUED)

1. BUDGETARY BASIS OF ACCOUNTING (CONTINUED)

Excess (Deficiency) of Revenues and Other
Financing Sources Over (Under) Expenditures
and Other Financing Uses
Governmental Fund Types and Expendable Trust Fund

	General Fund	Special Revenue Funds	Capital Projects Funds	Expendable Trust Fund
GAAP Basis	\$ 55,210	\$ <7,081>	\$ 26,513	\$ <797>
Revenue Accruals	<667>	<8,757>	-	-
Expenditure Accruals	399	<5,635>	<2,429>	-
Debt Principal Payments	<65,000>	<8,750>	-	-
Capital outlays	34,308	-	-	-
Debt Interest Payments	2,155	<555>	-	-
Note Proceeds	358,200	-	-	-
Transfers	<u><201,000></u>	<u>114,571</u>	<u>2,310</u>	<u>-</u>
Budget Basis	<u>\$ 183,605</u>	<u>\$ 83,793</u>	<u>\$ 26,394</u>	<u>\$ <797></u>

Net Income/Excess of Revenues Over <Under>
Expenses and Operating Transfers
Proprietary Fund Types

GAAP Basis (as reported)	<u>Enterprise</u> \$ <120,737>
Adjustments	
Revenue Accruals	104,708
Expense Accruals	65,703
Capital Outlay	<294,525>
Depreciation	300,217
Debt Principal Payment	<388,650>
Note Proceeds	264,600
Transfers	84,119
Gain on disposal of Fixed assets	<u><751></u>
Budget Basis	<u>\$ 14,684</u>

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2001

NOTE D - DEPOSITS AND INVESTMENTS

1. POLICIES AND PROCEDURES

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

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

Public depositories must give security for all public funds on deposit. According to the City's Deposit and Investment Policy, these institutions may either specifically collateralize individual accounts in lieu of amounts insured by the Federal Deposit Insurance Corporation (FDIC) or may pledge a pool of government securities the face value of which is at least 110 percent of the total value of public monies on deposit at the institution.

2. DEPOSITS

At year end, the carrying amount of the City's deposits were \$322,150 and the related bank balance was \$416,874. Of the bank balance, \$100,000 was covered by federal deposit insurance and the remaining amounts were uninsured and uncollateralized as defined by GASB Statement No. 3 because the securities held as collateral by the financial institutions or their trust departments or agents were held in an investments and securities pool but not in the financial institution's name. As authorized by state statute, the pledging bank has established an investment and securities pool to collateralize all public deposits.

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2001

NOTE D - DEPOSITS AND INVESTMENTS (CONTINUED)

3. INVESTMENTS

GASB Statement No. 3 "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" requires that the City's investments be classified in categories of risk. Category 1 includes investments that are insured or registered or for which the securities are held by the City. Category 2 includes uninsured and unregistered investment for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department but not in the City's name. The City has no investments which meet the definition of category 1, 2 or 3 as defined in GASB No. 3 and, accordingly, are reported herein as unclassified.

	<u>Carrying Value</u>	<u>Fair Value</u>
Unclassified		
Star Ohio	<u>\$1,142,501</u>	<u>\$1,142,501</u>

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

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

	<u>Cash and Cash Equivalents/ Deposits</u>	<u>Investments</u>
GASB Statement 9	\$1,464,651	\$ -
Investments:		
Star Ohio	<u><1,142,501></u>	<u>1,142,501</u>
GASB Statement 3	<u>\$ 322,150</u>	<u>\$1,142,501</u>

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2001

NOTE E - PROPERTY TAXES

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Taxes collected from real property taxes (other than public utility) in one calendar year are levied in the preceding calendar year on the assessed value as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be revaluated every six years. The last revaluation was completed in 1996. Real property taxes are payable annually or semi-annually. The first payment is due January 20, with the remainder payable by June 20.

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

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

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2001

NOTE E - PROPERTY TAXES (CONTINUED)

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of Union. The County Auditor periodically remits to the City its portion of the taxes collected. The full tax rate for all City operations for the year ended December 31, 2001, was \$16.03 per \$1,000 of assessed value. The assessed value of real and tangible personal property upon which 2001 property tax receipts were based are as follows:

Real Property Tax Assessed Valuation	\$63,647,700
Public Utility Tangible Personal Property Assessed Valuation	1,797,440
Tangible Personal Property Assessed Valuation	<u>2,544,217</u>
	<u>\$67,989,357</u>

Property taxes receivable represent real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2001. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31, nor are they intended to finance 2001 operations. The receivable is therefore offset by a credit to deferred revenue.

NOTE F - RECEIVABLES

Receivables at December 31, 2001, consisted of taxes, intergovernmental receivables arising from grants, entitlements and shared revenues, special assessments, interest on investments and utility accounts. All receivables are considered fully collectible. Utility Accounts Receivable at December 31, 2001 were \$80,030.

A summary of intergovernmental receivables follows:

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2001

NOTE F - RECEIVABLES (CONTINUED)

GENERAL FUND

Local government assistance	\$ 10,387
Fines and forfeitures	<u>774</u>
Total general fund	11,161

SPECIAL REVENUE FUNDS

State Highway Fund

Gas tax	688
Motor vehicle license tax	177

Street Maintenance and Repair Fund

Gas tax	8,480
Motor vehicle license tax	2,180
Permissive tax	<u>2,545</u>

Total special revenue funds 14,070

Total all funds \$ 25,231

By statute, local property taxes are reduced 10%, with additional reductions for the elderly and the disabled. The amount of these reductions, estimated to be approximately \$118,279, will be paid to the City by the State of Ohio in 2002.

NOTE G - FIXED ASSETS

General Fixed Assets

Changes in general fixed assets during the year ended December 31, 2001 were as follows:

	Balance at January 1, <u>2001</u>	<u>Additions</u>	<u>Deletions</u>	Balance at December 31, <u>2001</u>
Land	\$ 561,586	\$ -	\$ -	\$ 561,586
Buildings	384,525	1,340	-	385,865
Equipment	1,387,046	143,730	39,660	1,491,116
Construction in progress	<u>-</u>	<u>142,635</u>	<u>-</u>	<u>142,635</u>
Totals	<u>\$2,333,157</u>	<u>\$ 287,705</u>	<u>\$ 39,660</u>	<u>\$2,581,202</u>

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2001

NOTE H - DEFINED BENEFIT PENSION PLANS

Both the Police and Firemen's Disability Pension Fund and the Public Employees Retirement System are reported using GASB Statement No. 27 "Accounting for Pensions by State and Local Governmental Employers".

Substantially all City employees are covered by one of two cost-sharing multiple-employer defined benefit pension plans, namely, the Police and Firemen's Disability Pension Fund or the Public Employees Retirement System of Ohio (PERS). Both funds provide retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries.

Public Employees Retirement System

Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. The Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the fund. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 466-2085 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 8.5% for employees other than law enforcement. In January 2001, House Bill 416 divided the PERS law enforcement program into two separate divisions with separate employee contribution rates and benefits. The law enforcement classification consist of Sheriff, Deputy Sheriff and township police with an employee contribution rate of 10.1%. All other members of the PERS law enforcement program were placed in a newly named public safety division and continue to contribute 9%, no employees of the city fit the new PERS law enforcement program. The 2001 employer contribution rate for local government employers units was 13.55% of city payroll. The City's contributions to the plan for the years ending December 31, 1999, 2000, and 2001 were \$88,427, \$78,709 and \$107,751. The amount paid by the City includes both the employer's contribution as well as the employee's contribution (pick-up) for certain employees. The unpaid contribution for 2001 was \$24,542 with \$16,934 recorded in the general long-term debt account group and the remaining \$7,608 recorded in the respective enterprise funds.

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2001

NOTE H - DEFINED BENEFIT PENSION PLANS (CONTINUED)

Police and Firemen's Disability Pension Fund

The City of Union contributes to the Police and Firemen's Disability and Pension Fund (PFDPF), a cost-sharing multiple-employer defined benefit pension plan. PFDPF provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. The Police and Firemen's Disability Pension Fund issues a publicly available financial report that includes financial statements and required supplementary information for the plan. Interested parties may obtain a copy by making a written request to 140 East Town Street, Columbus, Ohio 43215-5164, or by calling (614) 228-2975.

The Ohio Revised Code provides statutory authority for employee and employer contributions. Plan members are required to contribute 10.0% of their annual covered salary and the City contributed 19.5% for Police employees. The City contributions to the plan for the years ended December 31, 1999, 2000, and 2001 were \$41,050, \$50,540 and \$54,069. The City's contributions include a full pick-up on the police chief. The unpaid contribution for 2001 was \$12,188 and is recorded as a long-term liability in the general long-term debt account group.

NOTE I - POSTEMPLOYMENT BENEFITS

1. PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)

The Public Employees Retirement System of Ohio provides postemployment health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit.

Health care coverage for disability recipients and primary survivor recipients is available. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care based on authority granted by State statute. The employer contribution rate was 13.55 percent; 4.3 percent was the portion that was used to fund health care for the year 2001.

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2001

NOTE I - POSTEMPLOYMENT BENEFITS (CONTINUED)

1. PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS) (CONTINUED)

Other postemployment benefits are financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions are expected to be sufficient to sustain the program indefinitely.

The City's actual contributions for 2001 which were used to fund postemployment benefits were \$30,191.

The actual contribution and the actuarially required contributions amounts are the same. As of December 31, 2000, the unaudited estimated net assets available for future other postemployment benefits payments were \$11,735,900,000. The number of benefit recipients eligible for other postemployment benefits at December 31, 2001 was \$411,076.

2. POLICE AND FIREMEN'S DISABILITY AND PENSION FUND (P&FDPF)

The Police and Firemen's Disability and Pension Fund provides post retirement health care coverage to any person who receives or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending full-time or on a 2/3 basis. The Ohio Revised Code provides the authority allowing the System's board of trustees to provide health care coverage and states that health care cost paid from the System shall be included in the employer's contribution rate. The total police employer contribution is 19.5 percent of covered payroll of which 7.5 percent was applied to the postemployment health care program. The actuarially

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2001

NOTE I - POSTEMPLOYMENT BENEFITS (CONTINUED)

2. POLICE AND FIREMEN'S DISABILITY AND PENSION FUND (P&FDPF)
(CONTINUED)

accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$14,364,600,000 and \$2,628,700,000. Health care funding and accounting is on a pay-as-you-go basis.

The number of participants eligible to receive health care benefits was 12,853 for police. The City's actual contributions for 2001 that were used to fund postemployment benefits were \$18,873. The fund's total health care expenses for the year ending December 31, 2000 (the latest information available) were \$106,160,054, which was net of member contributions of \$5,657,431.

NOTE J - OTHER EMPLOYEE BENEFITS

1. COMPENSATED ABSENCES

a. Accumulated Unpaid Vacation

City employees earn vacation leave at varying rates based upon length of service. In the case of death or retirement, an employee (or his estate) is paid for his unused vacation leave. The total obligation for vacation accrual for the City as a whole amounted to \$56,293 at December 31, 2001.

b. Accumulated Unpaid Sick Leave

All hourly employees earn 4.6 hours of sick leave per 80 hours worked. All salaried employees earn sick leave at the rate of 1.25 days per month. Upon qualifying to retire under one of the two pension systems an employee who has unused accumulated sick leave of up to 60 days is eligible to be paid for a portion of these hours. An employee with between 10 and 20 years of service will be paid at a rate of one day's pay for every two days accrued. An employee with over twenty years of service shall receive one day's pay for each day of accumulated sick leave. The total obligation for sick leave accrual for the City as a whole as of December 31, 2001 was \$67,698.

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2001

NOTE K - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During 2001 the City renewed their contract with the Ohio Government Risk Management Plan. This Plan does not operate as a risk pool, but provides conventional insurance protection and reinsures these coverages 100 percent. The type of coverage and deductible for each is as follows:

<u>Type of Coverage</u>	<u>Per Occurrence</u>	<u>Deductible</u>
General Liability	\$3,000,000	no deductible
Police Liability	\$3,000,000	\$ 2,500
Errors and Omissions	\$3,000,000	2,500
Automobile	\$3,000,000	1,000
Property Insurance	\$3,243,758	1,000
Inland Marine	\$ 698,737	250
Fire Vehicle	\$ 495,000	1,000
Crime	\$ 10,000	100
EDP	\$ 25,000	250

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

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

The City has elected to provide employee medical insurance benefits through John Alden Life Insurance Company. The City covers the employee's premiums and deductibles by budgeting \$72,000 each year for health insurance expenditures. This money is set aside to cover each employee's monthly premium and deductible of \$2,500 after the employee pays the first \$100. If the money set aside is not depleted, the City places the excess into a savings account. In 2001, the City made no contribution to the savings account and the account has a balance of \$105,355. This amount is reflected in the cash balance of each fund based on the original contribution.

Dental benefits are also provided by the City.

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2001

NOTE L - CAPITALIZED LEASES-LESSEE DISCLOSURE

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

Capital lease payments have been reclassified and are reflected as debt service in the Combined Financial Statements for the Enterprise Fund Type. These expenditures are reflected as contractual service expenses on a budgetary basis. The assets have been capitalized as equipment in the Sewer Fund for \$186,117. The city has borrowed \$150,000 and \$27,717 as a lease purchase and a liability has been recorded in the sewer fund. Principal payments in 2001 for The VacCon and Kut Kwick were \$24,225 and -0- respectively. Principal payments for the mower will begin in 2002.

The following is a schedule of the future minimum lease payments required under the capital leases and present value of the minimum lease payments as of December 31, 2001.

<u>December 31,</u>	<u>Capital Lease Obligation</u>
2002	\$ 35,232
2003	35,235
2004	35,233
2005	6,356
2006	<u>6,355</u>
Total Minimum Lease Payments	\$118,411
Less: Amount Representing Interest	<u><11,294></u>
Present Value of Minimum Lease Payments	<u>\$107,117</u>

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2001

NOTE M - SHORT-TERM OBLIGATIONS

A summary of the short-term note transactions for the year ended December 31, 2001 follows:

<u>Fund Type</u>	<u>Balance January 1, 2001</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance December 31, 2001</u>
General Fund				
Martindale Rd 3.29%	\$ 65,000	\$ 58,200	\$ 65,000	\$ 58,200
City building 3.29%	<u> -</u>	<u> 99,000</u>	<u> -</u>	<u> 99,000</u>
Total General Fund	<u>\$ 65,000</u>	<u>\$157,200</u>	<u>\$ 65,000</u>	<u>\$157,200</u>
Special Revenue Fund				
City Building - 3.29%	<u>\$ -</u>	<u>\$ 99,000</u>	<u>\$ -</u>	<u>\$ 99,000</u>
Enterprise Fund				
Phillipsburg - Union Utility - 3.29%	\$164,700	\$108,200	\$164,700	\$108,200
Water Line - 3.29%	167,700	156,400	167,700	156,400
City building - 3.29%	<u> -</u>	<u> 102,000</u>	<u> -</u>	<u> 102,000</u>
Total Enterprise Fund	<u>\$332,400</u>	<u>\$366,600</u>	<u>\$332,400</u>	<u>\$366,600</u>

The City classifies these notes as short-term because it is the City's plan to renew these notes each year and to pay off a portion of the principal each year.

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2001

NOTE N - LONG-TERM OBLIGATIONS

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

General Long-Term Obligation

	Balance January 1, <u>2001</u>	<u>Increase</u>	<u>Decrease</u>	Balance December 31, <u>2001</u>
Compensated absences	\$ 59,037	\$ 8,951	\$ -	\$ 67,988
Long-term note	47,038	-	47,038	-
Intergovernmental payable	19,151	9,971	-	29,122
Various purpose general obligation bonds payable	<u>318,360</u>	<u>-</u>	<u>60,000</u>	<u>258,360</u>
Total general long-term obligations	\$ <u>443,586</u>	\$ <u>18,922</u>	\$ <u>107,038</u>	\$ <u>355,470</u>

	Balance January 1, <u>2001</u>	<u>Increase</u>	<u>Decrease</u>	Balance December 31, <u>2001</u>
<u>Enterprise Funds</u>				
Various purpose general obligation bonds payable	\$ 341,640	\$ -	\$ 65,000	\$ 276,640
Capital lease obligation	<u>103,625</u>	<u>27,717</u>	<u>24,225</u>	<u>107,117</u>
Total-Enterprise Fund type	\$ <u>445,265</u>	\$ <u>27,717</u>	\$ <u>89,225</u>	\$ <u>383,757</u>

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2001

NOTE N - LONG-TERM OBLIGATIONS (CONTINUED)

As of December 31, 2001, the City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$6,950,151. Principal and interest requirement to retire long-term obligations outstanding at December 31, 2001 are as follows:

<u>Year</u> <u>Ending</u>	General Obligation <u>Bond</u>	Enterprise General Obligation <u>Bond</u>
2002	\$ 70,801	\$ 76,702
2003	70,771	76,669
2004	70,582	76,463
2005	<u>74,256</u>	<u>77,052</u>
Total Principal and Interest	286,410	306,886
Less Interest	<u>28,050</u>	<u>30,246</u>
Total Principal Outstanding	<u>\$258,360</u>	<u>\$276,640</u>

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2001

NOTE O - SEGMENT INFORMATION

The City's enterprise funds account for the provision of pool, sewer, water and storm water services. Key financial information for the year ended December 31, 2001, for each enterprise fund is as follows:

	<u>Pool Fund</u>	<u>Storm Water Fund</u>	<u>Sanitary Sewer Fund</u>	<u>Water- Works Fund</u>	<u>Total</u>
Operating Revenues	\$ 10	\$ 79,522	\$ 575,466	\$ 407,658	\$1,062,656
Operating Expenses					
Before Depreciation	6,852	77,891	382,690	325,434	792,867
Depreciation Expense	<u>-</u>	<u>47,160</u>	<u>140,394</u>	<u>112,663</u>	<u>300,217</u>
Operating Income					
<Loss>	<u><6,842></u>	<u><45,529></u>	<u>52,382</u>	<u><30,439></u>	<u><30,428></u>
Net Non-Operating					
Revenues <Expenses>	<u>347</u>	<u>9,916</u>	<u><11,138></u>	<u><8,190></u>	<u><9,065></u>
Operating Transfers	<u>2,875</u>	<u><17,592></u>	<u><34,252></u>	<u><32,275></u>	<u><81,244></u>
Net Income <Loss>	<u>\$ <3,620></u>	<u>\$ <53,205></u>	<u>\$ 6,992</u>	<u>\$ <70,904></u>	<u>\$ <120,737></u>
Current Contributed					
Capital	<u>\$ -</u>	<u>\$ 89,254</u>	<u>\$ 375,318</u>	<u>\$ 391,221</u>	<u>\$ 855,793</u>
Additions to Property, Plant and Equipment	<u>\$ -</u>	<u>\$ 19,178</u>	<u>\$ 47,246</u>	<u>\$ 71,985</u>	<u>\$ 138,409</u>
Net Working Capital	<u>\$ 6,484</u>	<u>\$ 18,220</u>	<u>\$ 224,722</u>	<u>\$ <43,346></u>	<u>\$ 206,080</u>
Total Assets	<u>\$ 6,484</u>	<u>\$1,410,302</u>	<u>\$3,962,053</u>	<u>\$3,236,218</u>	<u>\$8,615,057</u>
Other Long-Term					
Liabilities Payable from Revenue	<u>\$ -</u>	<u>\$ 3,211</u>	<u>\$ 298,210</u>	<u>\$ 137,568</u>	<u>\$ 438,989</u>
Total Equity	<u>\$ 6,484</u>	<u>\$1,405,868</u>	<u>\$3,488,584</u>	<u>\$2,877,073</u>	<u>\$7,778,009</u>

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2001

NOTE O - SEGMENT INFORMATION (CONTINUED)

During 2000, contributed capital increased by the following amounts:

<u>Source</u>	<u>Storm Water Fund</u>	<u>Sanitary Sewer Fund</u>	<u>Waterworks Fund</u>	<u>Total</u>
Contributed capital at January 1, 2001	\$1,235,427	\$1,728,125	\$1,303,037	\$4,266,589
Developers	-	375,318	391,221	766,539
Intergovernmental	89,254	-	-	89,254
Less depreciation	<u><41,634></u>	<u><57,278></u>	<u><44,465></u>	<u><143,377></u>
Contributed capital at December 31, 2001	<u>\$1,283,047</u>	<u>\$2,046,165</u>	<u>\$1,649,793</u>	<u>\$4,979,005</u>

NOTE P - FEDERAL AND STATE GRANTS

For the period January 1, 2001 to December 31, 2001 the City received federal and state grants for specific purposes that are subject to review and audit by grantor agencies or their designee. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowance, if any, would be immaterial.

CITY OF UNION, OHIO

MONTGOMERY COUNTY

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2002

This Page Intentionally Left Blank

City of Union, Ohio

TABLE OF CONTENTS

<u>TITLE</u>	<u>PAGE</u>
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS	5
GENERAL PURPOSE FINANCIAL STATEMENTS	
COMBINED BALANCE SHEET ALL FUND TYPES AND ACCOUNT GROUPS	6-9
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND	10
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (BUDGET BASIS) ALL GOVERNMENTAL FUND TYPES	12
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS ALL PROPRIETARY FUND TYPES	14
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY - BUDGET AND ACTUAL (BUDGET BASIS) ALL PROPRIETARY FUND TYPES	15
COMBINED STATEMENT OF CASH FLOWS ALL PROPRIETARY FUND TYPES	16-17
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS	18-49

This Page Intentionally Left Blank

Roth & Company, CPA's
215 W. National Road
Englewood, Ohio 45322

Report of Independent Certified Public Accountants

Honorable Mayor, Members of the City
Council and City Manager
City of Union, Ohio

We have audited the accompanying general purpose financial statements of the City of Union, Ohio, as of and for the year ended December 31, 2002, as listed in the foregoing table of contents. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Union, Ohio, at December 31, 2002 and the results of its operations and cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated June 3, 2003, on our consideration of City of Union's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Roth & Company
Englewood, Ohio
June 3, 2003

City of Union, Ohio - Montgomery County

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS

December 31, 2002

	<u>GOVERNMENTAL FUND TYPES</u>		
	<u>General Fund</u>	<u>Special Revenue</u>	<u>Capital Projects</u>
ASSETS AND OTHER DEBITS			
Assets			
Equity in pooled cash and cash equivalents	\$131,527	\$ 406,414	\$ 37,277
Receivables			
Taxes	148,918	613,395	206,227
Accounts	23,530	7,987	-
Special assessments	-	297,361	-
Intergovernmental receivable	10,323	14,887	-
Prepaid items	1,756	6,096	-
Supplies inventory	3,525	734	-
Fixed assets			
Land	-	-	-
Buildings	-	-	-
Equipment	-	-	-
Infrastructure	-	-	-
	-	-	-
Less: Accumulated depreciation	-	-	-
Net fixed assets	-	-	-
Other debits			
Amount to be provided for retirement of general long-term obligations	-	-	-
	-	-	-
Total assets and other debits	<u>\$ 319,579</u>	<u>\$1,346,874</u>	<u>\$ 243,504</u>

<u>PROPRIETARY FUND TYPE</u>	<u>FIDUCIARY FUND TYPE</u>	<u>ACCOUNT GROUPS</u>		<u>Total (Memorandum Only)</u>
		<u>General Fixed Assets</u>	<u>General Long-Term Obligations</u>	
<u>Enterprise</u>	<u>Expendable Trust</u>			
\$ 612,006	\$ 9,682	\$ -	\$ -	\$ 1,196,906
-	23,723	-	-	992,263
88,570	-	-	-	120,087
-	-	-	-	297,361
-	-	-	-	25,210
3,445	-	-	-	11,297
6,763	-	-	-	11,022
-	-	561,586	-	561,586
2,954,336	-	932,536	-	3,886,872
743,216	-	1,655,938	-	2,399,154
<u>8,882,536</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,882,536</u>
12,580,088	-	3,150,060	-	15,730,148
<u><4,532,552></u>	<u>-</u>	<u>-</u>	<u>-</u>	<u><4,532,552></u>
8,047,536	-	3,150,060	-	11,197,596
-	-	-	<u>291,167</u>	<u>291,167</u>
<u>\$ 8,758,320</u>	<u>\$ 33,405</u>	<u>\$3,150,060</u>	<u>\$ 291,167</u>	<u>\$14,142,909</u>

City of Union, Ohio - Montgomery County

COMBINED BALANCE SHEET (CONTINUED)
ALL FUND TYPES AND ACCOUNT GROUPS

December 31, 2002

	<u>GOVERNMENTAL FUND TYPES</u>		
	<u>General</u>	<u>Special</u>	<u>Capital</u>
	<u>Fund</u>	<u>Revenue</u>	<u>Projects</u>
LIABILITIES, FUND EQUITY AND OTHER CREDITS			
Liabilities			
Accounts payable	\$ 10,708	\$ 5,176	\$ 5,264
Contracts payable	-	22,130	-
Accrued salaries payable	1,965	11,688	-
Accrued interest payable	980	3,611	-
Intergovernmental payable	856	19,187	2,989
Deferred revenue	148,918	910,756	206,227
Compensated absences payable	-	908	-
Notes payable	142,600	236,400	-
General Obligation Bonds Payable	-	-	-
Capital lease obligation	-	-	-
Total liabilities	<u>306,027</u>	<u>1,209,856</u>	<u>214,480</u>
Fund equity and other credits			
Contributed capital	-	-	-
Less depreciation on fixed assets	-	-	-
Net contributed capital	-	-	-
Investment in general fixed assets	-	-	-
Retained earnings			
Unreserved	-	-	-
Fund balances			
Reserved for supplies inventory	3,525	734	-
Unreserved			
Unreserved	<u>10,027</u>	<u>136,284</u>	<u>29,024</u>
Total fund equity and other credits	<u>13,552</u>	<u>137,018</u>	<u>29,024</u>
Total liabilities, fund equity and other credits	<u>\$ 319,579</u>	<u>\$ 1,346,874</u>	<u>\$ 243,504</u>

The accompanying notes are an integral part of this statement.

<u>PROPRIETARY FUND TYPE</u>	<u>FIDUCIARY FUND TYPE</u>	<u>ACCOUNT GROUPS</u>			<u>Total (Memorandum Only)</u>
		<u>Enterprise</u>	<u>Expendable Trust</u>	<u>General Fixed Assets</u>	
\$ 22,263	\$ -	\$ -	\$ -	\$ 43,411	
-	-	-	-	22,130	
5,674	-	-	-	19,327	
2,705	-	-	-	7,296	
14,517	-	-	27,986	65,535	
-	23,723	-	-	1,289,624	
50,038	-	-	64,821	115,767	
283,500	-	-	-	662,500	
211,640	-	-	198,360	410,000	
<u>76,776</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>76,776</u>	
667,113	23,723	-	291,167	2,712,366	
7,290,726	-	-	-	7,290,726	
<u>2,203,366</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,203,366</u>	
5,087,360	-	-	-	5,087,360	
-	-	3,150,060	-	3,150,060	
3,003,847	-	-	-	3,003,847	
-	-	-	-	4,259	
<u>-</u>	<u>9,682</u>	<u>-</u>	<u>-</u>	<u>185,017</u>	
<u>8,091,207</u>	<u>9,682</u>	<u>3,150,060</u>	<u>-</u>	<u>11,430,543</u>	
<u>\$8,758,320</u>	<u>\$ 33,405</u>	<u>\$3,150,060</u>	<u>\$ 291,167</u>	<u>\$14,142,909</u>	

City of Union, Ohio - Montgomery County

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND

Year Ended December 31, 2002

REVENUES

Property and other taxes
Intergovernmental
Special assessments
Charges for services
Fines, licenses and permits
Interest
Other
Total revenues

EXPENDITURES

Current
Security of persons and property
Public health services
Leisure time activities
Community environment
Transportation
General government
Capital outlay
Debt service
Principal retirement
Interest and fiscal charges
Total expenditures

Excess of revenues over <under> expenditures

Other financing sources <uses>
Proceeds from the sale of fixed assets
Operating transfers - in
Operating transfers - out
Total other financing sources <uses>

Excess of revenues and other financing sources over
<under> expenditures and other financing uses

Fund balance at January 1, 2002
Decrease in reserve for inventory

Fund balance at December 31, 2002

The accompanying notes are an integral part of this statement.

<u>GOVERNMENTAL FUND TYPES</u>			<u>FIDUCIARY</u>	
<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>FUND TYPE</u>	<u>Total (Memorandum Only)</u>
<u>Expendable Trust</u>				
\$ 123,577	\$ 558,131	\$191,156	\$ 19,596	\$ 892,460
250,134	1,534,650	26,775	2,748	1,814,307
-	255,616	-	-	255,616
49,558	384,324	-	-	433,882
64,269	6,600	-	-	70,869
2,808	9,478	1,597	159	14,042
<u>37,132</u>	<u>16,644</u>	<u>98</u>	<u>85</u>	<u>53,959</u>
527,478	2,765,443	219,626	22,588	3,535,135
-	940,567	-	54,060	994,627
-	6,851	-	-	6,851
-	63,660	-	-	63,660
-	285,613	-	-	285,613
-	153,124	102,016	-	255,140
278,718	-	-	-	278,718
338,924	1,595,681	77,536	-	2,012,141
-	8,750	51,250	-	60,000
<u>4,003</u>	<u>7,066</u>	<u>9,226</u>	<u>-</u>	<u>20,295</u>
621,645	3,061,312	240,028	54,060	3,977,045
<94,167>	<295,869>	<20,402>	<31,472>	<441,910>
-	287	-	-	287
-	75,300	-	40,000	115,300
<u><81,050></u>	<u><55,234></u>	<u><2,310></u>	<u>-</u>	<u><138,594></u>
<81,050>	20,353	<2,310>	40,000	<23,007>
<175,217>	<275,516>	<22,712>	8,528	<464,917>
189,113	421,751	51,736	1,154	663,754
<u><344></u>	<u><9,217></u>	<u>-</u>	<u>-</u>	<u><9,561></u>
<u>\$ 13,552</u>	<u>\$ 137,018</u>	<u>\$ 29,024</u>	<u>\$ 9,682</u>	<u>\$ 189,276</u>

City of Union, Ohio - Montgomery

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (BUDGET BASIS)
ALL GOVERNMENTAL FUND TYPES

Year Ended December 31, 2002

	GENERAL FUND			Revised Budget
	Revised Budget	Actual	Variance Favorable <Unfavorable>	
REVENUES				
Property and other taxes	\$ 123,577	\$ 123,577	\$ -	\$ 555,373
Intergovernmental	250,972	250,972	-	1,627,263
Special assessments	-	-	-	244,000
Charges for services	64,558	49,558	<15,000>	353,100
Fines, licenses, permits	64,269	64,269	-	4,000
Interest	6,000	2,808	<3,192>	11,028
Other	51,702	34,942	<16,760>	983
Total revenues	561,078	526,126	<34,952>	2,795,747
EXPENDITURES				
Current				
Security of persons and property	-	-	-	986,626
Public health services	-	-	-	12,758
Leisure time activities	-	-	-	65,414
Community Environment	-	-	-	294,259
Transportation	-	-	-	198,257
General government	327,262	311,010	16,252	-
Capital outlay	338,925	338,924	1	1,663,380
Debt service				
Principal retirement	344,800	344,800	-	24,100
Interest and fiscal charges	5,178	5,178	-	6,600
Total expenditures	1,016,165	999,912	16,253	3,251,394
EXCESS OF REVENUES OVER <UNDER> EXPENDITURES	<455,087>	<473,786>	<18,699>	<455,647>
OTHER FINANCING SOURCES <USES>				
Proceeds from sale of notes	330,200	330,200	-	143,073
Proceeds from sale of fixed assets	-	-	-	287
Operating transfers - in	-	-	-	71,900
Operating transfers - out	<99,600>	<81,050>	18,550	<40,000>
Total other financing sources <uses>	230,600	249,150	18,550	175,260
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER <UNDER> EXPENDITURES AND OTHER FINANCING USES	<224,487>	<224,636>	<149>	<280,387>
FUND BALANCES AT JANUARY 1, 2002	356,166	356,166	-	533,750
FUND BALANCES AT DECEMBER 31, 2002	\$ 131,679	\$ 131,530	\$ <149>	\$ 253,363

The accompanying notes are an integral part of this statement.

SPECIAL REVENUE FUNDS		CAPITAL PROJECT FUND			EXPENDABLE TRUST FUND		
Actual	Variance Favorable <Unfavorable>	Revised Budget	Actual	Variance Favorable <Unfavorable>	Revised Budget	Actual	Variance Favorable <Unfavorable>
\$ 558,131	\$ 2,758	\$ 198,968	\$ 191,156	\$ <7,812>	\$ 19,294	\$ 19,596	\$ 302
1,533,833	<93,430>	18,750	26,775	8,025	2,420	2,748	328
255,616	11,616	-	-	-	-	-	-
384,009	30,909	-	-	-	-	-	-
6,600	2,600	-	-	-	-	-	-
9,478	<1,550>	1,000	1,597	597	100	159	59
16,644	15,661	-	98	98	-	85	85
2,764,311	<31,436>	218,718	219,626	908	21,814	22,588	774
935,979	50,647	-	-	-	60,845	54,060	6,785
6,851	5,907	-	-	-	-	-	-
63,555	1,859	-	-	-	-	-	-
281,593	12,666	-	-	-	-	-	-
157,093	41,164	122,764	96,356	26,408	-	-	-
-	-	-	-	-	-	-	-
1,595,681	67,699	77,536	77,536	-	-	-	-
24,100	-	51,250	51,250	-	-	-	-
6,387	213	9,300	9,226	74	-	-	-
3,071,239	180,155	260,850	234,368	26,482	60,845	54,060	6,785
<306,928>	148,719	<42,132>	<14,742>	27,390	<39,031>	<31,472>	7,559
144,000	927	-	-	-	-	-	-
287	-	-	-	-	-	-	-
75,300	3,400	-	-	-	40,000	40,000	-
<40,000>	-	-	-	-	-	-	-
179,587	4,327	-	-	-	40,000	40,000	-
<127,341>	153,046	<42,132>	<14,742>	27,390	969	8,528	7,559
533,750	-	52,020	52,020	-	1,156	1,156	-
\$ 406,409	\$ 153,046	\$ 9,888	\$ 37,278	\$ 27,390	\$ 2,125	\$ 9,684	\$ 7,559

City of Union, Ohio - Montgomery County
 COMBINED STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN RETAINED EARNINGS
 ALL PROPRIETARY FUND TYPES

Year Ended December 31, 2002

	<u>Enterprise Funds</u>
Operating revenues	
Charges for services	\$1,007,478
Tap-in-fees	100,800
Other	<u>57,629</u>
Total operating revenues	1,165,907
Operating expenses	
Personal services	457,831
Contractual services	309,348
Supplies and materials	38,341
Depreciation	<u>322,748</u>
Total operating expenses	<u>1,128,268</u>
Operating income	37,639
Non-operating revenues <expenses>	
Other financing sources	
Interest	8,419
Interest and fiscal charges	<u><25,315></u>
Total non-operating revenues <expenses>	<u><16,896></u>
Net income before operating transfers	20,743
Operating transfers - in	43,150
Operating transfers - out	<u><19,856></u>
Net income	44,037
Depreciation on contributed fixed assets	<u>160,806</u>
Increase in retained earnings	204,843
Retained earnings at January 1, 2002	<u>2,799,004</u>
Retained earnings at December 31, 2002	<u>\$3,003,847</u>

The accompanying notes are an integral part of this statement.

City of Union, Ohio - Montgomery County

COMBINED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND EQUITY - BUDGET AND ACTUAL (BUDGET BASIS)
ALL PROPRIETARY FUND TYPES

Year Ended December 31, 2002

	<u>ENTERPRISE FUNDS</u>		
	<u>Revised Budget</u>	<u>Actual</u>	Variance Favorable <Unfavorable>
Revenues			
Charges for services	\$ 964,000	\$ 998,938	\$ 34,938
Tap-in-fees	48,000	100,800	52,800
Other	8,500	57,629	49,129
Interest	11,100	8,419	<2,681>
Proceeds from sale of notes	<u>200,900</u>	<u>188,300</u>	<u><12,600></u>
Total revenues	1,232,500	1,354,086	121,586
Expenses			
Personal services	479,335	457,925	21,410
Contractual services	354,584	289,936	64,648
Materials and supplies	68,510	43,247	25,263
Capital outlay	392,071	128,488	263,583
Debt service			
Principal retirement	349,900	327,650	22,250
Interest and fiscal charges	<u>23,100</u>	<u>22,144</u>	<u>956</u>
Total expenses	1,667,500	1,269,390	398,110
Excess of revenues over <under> expenses before operating transfer	<435,000>	84,696	519,696
Transfer - in	<u>5,750</u>	<u>5,750</u>	<u>-</u>
Excess of revenues over <under> expenses	<429,250>	90,446	519,696
Fund equity at January 1, 2002	<u>521,561</u>	<u>521,561</u>	<u>-</u>
Fund equity at December 31, 2002	\$ <u>92,311</u>	\$ <u>612,007</u>	\$ <u>519,696</u>

The accompanying notes are an integral part of this statement.

City of Union, Ohio - Montgomery County

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES

Year Ended December 31, 2002

	<u>Enterprise</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$1,157,367
Cash payments to employees for services and benefits	<457,925>
Cash payments to suppliers for goods and services	<u><343,452></u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	355,990
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Operating transfer - in	43,150
Operating transfer - out	<u><19,856></u>
NET CASH FLOWS PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	23,294
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	<90,205>
Proceeds from sale of notes	283,500
Principal paid on notes payable	<366,600>
Interest paid on notes payable	<12,018>
Principal paid on general obligation bonds payable	<65,000>
Interest paid on general obligation bonds payable	<11,701>
Principal paid on capital lease obligation	<30,341>
Interest paid on capital lease obligation	<u><4,892></u>
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<297,257>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest and dividends on Investments	<u>8,419</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	90,446
CASH AND CASH EQUIVALENTS JANUARY 1, 2002	<u>521,560</u>
CASH AND CASH EQUIVALENTS DECEMBER 31, 2002	\$ <u><u>612,006</u></u>

City of Union, Ohio - Montgomery County
 COMBINED STATEMENT OF CASH FLOWS (CONTINUED)
 ALL PROPRIETARY FUND TYPES

Year Ended December 31, 2002

	<u>Enterprise</u>
RECONCILIATION OF OPERATING LOSS TO	
NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating gain	\$ 37,639
Adjustments to reconcile operating income	
to net cash provided by operating activities	
Depreciation	322,748
Changes in assets and liabilities	
Decrease in accounts receivable	<8,540>
Increase in prepaid items	<2,153>
Increase in supplies inventory	<5,506>
Increase in accounts payable	11,896
Increase in accrued salaries	173
Increase in intergovernmental payable	4,927
Increase in compensated absences payable	<u><5,194></u>
Net cash provided by operating	
activities	<u>\$ 355,990</u>

NONCASH CAPITAL FINANCING ACTIVITIES

Developers contributed water lines and sewer lines, storm sewers in the amount of \$97,040, \$77,090 and \$76,635, respectively.

The Sewer fund contributed \$9,198 to the Water Fund and \$9,198 to the Storm Sewer Fund for the purchase of a loader/backhoe.

The accompanying notes are an integral part of this statement.

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

December 31, 2002

NOTE A - REPORTING ENTITY AND BASIS OF PRESENTATION

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

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

1. REPORTING ENTITY

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

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

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing body and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the budget, the issuance of debt or the levying of taxes.

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2002

NOTE A - REPORTING ENTITY AND BASIS OF PRESENTATION (CONTINUED)

1. REPORTING ENTITY (CONTINUED)

The following potential component unit has been excluded from the City's financial statements because the City is not financially accountable for it nor is the entity fiscally dependent on the City:

The Union Elementary School is a distinct political subdivision of the State of Ohio operated under the direction of an elected school board which possesses its own budgeting and taxing authority and which is not fiscally dependent on the City.

2. BASIS OF PRESENTATION - FUND ACCOUNTING

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

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

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

3. GOVERNMENTAL FUND TYPES

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

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2002

NOTE A - REPORTING ENTITY AND BASIS OF PRESENTATION (CONTINUED)

3. GOVERNMENTAL FUND TYPES (CONTINUED)

proprietary funds) are accounted for through governmental funds. The following are the City's governmental fund types:

a. General Fund

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

b. Special Revenue Funds

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

c. Capital Projects Funds

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

4. PROPRIETARY FUND TYPES

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

a. Enterprise Funds

These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that costs (expenses, including depreciation) of providing services to the general public on a continuing basis be recovered or financed primarily through user charges or where it has

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2002

NOTE A - REPORTING ENTITY AND BASIS OF PRESENTATION (CONTINUED)

4. PROPRIETARY FUND TYPES (CONTINUED)

a. Enterprise Funds (CONTINUED)

been decided that a periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

5. FIDUCIARY FUNDS

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

6. ACCOUNT GROUPS

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

a. General Fixed Assets Account Group

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

b. General Long-Term Obligations Account Group

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

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to generally accepted accounting principles

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2002

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

for local governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board and other recognized authoritative sources.

1. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Pursuant to GASB Statement No. 20: Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting, the City follows GASB guidance as applicable to proprietary funds and Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

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

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

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

All governmental fund types, expendable trust funds and agency funds are accounted for using the modified accrual basis of accounting. Under this basis, revenues are recognized in the accounting period when they become both measurable and available. Measurable means the amount of the transaction can

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2002

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)

be determined and available means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current year. The available period is thirty-one days after year-end.

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

The City reports deferred revenues in its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. In the subsequent period, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Current and delinquent property taxes measurable as of December 31, 2002, whose availability is indeterminate and which are not intended to finance current period obligations, have been recorded as a receivable and deferred revenue. Levied special assessments are measurable, and have been recorded as a receivable. Since all assessments are due outside the available period, the entire amount has been deferred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year, and under GASB 16 the cost of accumulated unpaid vacation and sick leave are reported as fund liabilities in the period in which they will be liquidated with available financial resources rather than in the period earned by employees. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2002

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)

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

2. BUDGETARY PROCESS

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the object level (personal services and other expenditures) within each department. Budgetary modifications may only be made by resolution of the City Council.

3. TAX BUDGET

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

4. ESTIMATED RESOURCES

The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and revises estimated revenues. The commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2002

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4. ESTIMATED RESOURCES (CONTINUED)

annual appropriation ordinance. On or about January 1, the certificate of estimated resources is amended to include unencumbered fund balances at December 31 of the preceding year. The certificate may be further amended during the year if the fiscal officer determines that the revenue collected is greater or less than the current estimates. The amounts reported on the budgetary statements reflect the amounts in the final amended official certificate of estimated resources issued during 2002.

5. APPROPRIATIONS

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

6. ENCUMBRANCES

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditures of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations. On the GAAP basis, encumbrances outstanding at year-end are reported as reservations of fund balances for subsequent-year expenditure for governmental funds and reported in the notes to the financial statements for proprietary funds.

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2002

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

7. LAPSING OF APPROPRIATIONS

All encumbrances lapse at the close of each year and must be re-appropriated. At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

8. CASH AND CASH EQUIVALENTS

Cash balances of the City's funds, except cash held by fiscal agent, are pooled and invested in short-term investments in order to provide improved cash management. Individual fund integrity is maintained through City records. Each fund's interest in the pooled bank account is presented on the balance sheet as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet. Investments are stated at cost which approximates fair value. For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments with original maturities of three months or less and investments of the cash management pool are considered to be cash equivalents. Interest income is distributed to the funds according to charter and statutory requirements. Interest revenue earned during 2002 amounted to \$22,461.

9. SUPPLIES INVENTORY

Inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental fund types when purchased and as expenses in the proprietary fund types when used. Reported supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2002

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

10. FIXED ASSETS AND DEPRECIATION

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

General Fixed Assets

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

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

Proprietary Fund Fixed Assets

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

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2002

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

10. PROPRIETARY FUND FIXED ASSETS (CONTINUED)

Buildings	45 years
Land Improvements other than Buildings	45 years
Equipment	6 - 15 years
Vehicles	6 years
Infrastructure Sewer Lines, Water Lines and Storm Sewers	45 years

11. COMPENSATED ABSENCES

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

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

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

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

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2002

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

11. COMPENSATED ABSENCES (CONTINUED)

liability, while the balance of the liability is recorded in the general long-term obligations account group.

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

12. CONTRIBUTED CAPITAL

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

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

13. RESERVATIONS AND DESIGNATION OF FUND EQUITY

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

14. INTERGOVERNMENTAL REVENUES

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

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2002

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

14. INTERGOVERNMENTAL REVENUES (CONTINUED)

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

15. INTERFUND TRANSACTIONS

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

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

16. LONG-TERM OBLIGATIONS

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

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2002

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

16. LONG-TERM OBLIGATIONS (CONTINUED)

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

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

17. USE OF ESTIMATES

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

18. TOTAL COLUMNS ON GENERAL PURPOSE FINANCIAL STATEMENTS

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

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2002

NOTE C - BUDGET TO GAAP RECONCILIATION

1. BUDGETARY BASIS OF ACCOUNTING

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

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

- a. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
- b. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
- c. Proceeds from and principal payments on short-term note obligations are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).

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

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2002

NOTE C - BUDGET TO GAAP RECONCILIATION (CONTINUED)

1. BUDGETARY BASIS OF ACCOUNTING (CONTINUED)

Excess (Deficiency) of Revenues and Other
Financing Sources Over (Under) Expenditures
and Other Financing Uses
Governmental Fund Types and Expendable Trust Fund

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Expendable Trust Fund</u>
GAAP Basis	\$ <175,217>	\$ <275,516>	\$ <22,712>	\$ 8,528
Revenue Accruals	<1,352>	<1,132>	-	-
Expenditure Accruals	<32,292>	4,744	5,660	-
Debt Principal Payments	<344,800>	<15,350>	-	-
Debt Interest Payments	<1,175>	679	-	-
Note Proceeds	330,200	144,000	-	-
Transfers	-	<u>15,234</u>	<u>2,310</u>	-
Budget Basis	\$ < <u>224,636</u> >	\$ < <u>127,341</u> >	\$ < <u>14,742</u> >	\$ <u>8,528</u>

Net Income/Excess of Revenues Over <Under>
Expenses and Operating Transfers
Proprietary Fund Types

GAAP Basis (as reported)	<u>Enterprise</u> \$ 44,037
Adjustments	
Revenue Accruals	<8,540>
Expense Accruals	17,583
Capital Outlay	<128,488>
Depreciation	322,748
Debt Principal Payment	<327,650>
Note Proceeds	188,300
Transfers	<u><17,544></u>
Budget Basis	\$ <u>90,446</u>

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2002

NOTE D - DEPOSITS AND INVESTMENTS

1. POLICIES AND PROCEDURES

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

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

Public depositories must give security for all public funds on deposit. According to the City's Deposit and Investment Policy, these institutions may either specifically collateralize individual accounts in lieu of amounts insured by the Federal Deposit Insurance Corporation (FDIC) or may pledge a pool of government securities the face value of which is at least 110 percent of the total value of public monies on deposit at the institution.

2. DEPOSITS

At year end, the carrying amount of the City's deposits were \$40,172 and the related bank balance was \$89,853. Of the bank balance, \$89,853 was covered by federal deposit insurance and the remaining amounts were uninsured and uncollateralized as defined by GASB Statement No. 3 because the securities held as collateral by the financial institutions or their trust departments or agents were held in an investments and securities pool but not in the financial institution's name. As authorized by state statute, the pledging bank has established an investment and securities pool to collateralize all public deposits.

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2002

NOTE D - DEPOSITS AND INVESTMENTS (CONTINUED)

3. INVESTMENTS

GASB Statement No. 3 "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" requires that the City's investments be classified in categories of risk. Category 1 includes investments that are insured or registered or for which the securities are held by the City. Category 2 includes uninsured and unregistered investment for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department but not in the City's name. The City has no investments which meet the definition of category 1, 2 or 3 as defined in GASB No. 3 and, accordingly, are reported herein as unclassified.

	<u>Carrying Value</u>	<u>Fair Value</u>
Unclassified		
Star Ohio	<u>\$1,156,734</u>	<u>\$1,156,734</u>

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

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

	<u>Cash and Cash Equivalents/ Deposits</u>	<u>Investments</u>
GASB Statement 9	\$1,196,906	\$
Investments:		
Star Ohio	<u><1,156,734></u>	<u>1,156,734</u>
GASB Statement 3	<u>\$ 40,172</u>	<u>\$1,156,734</u>

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2002

NOTE E - PROPERTY TAXES

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

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

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

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2002

NOTE E - PROPERTY TAXES (CONTINUED)

The County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of Union. The County Auditor periodically remits to the City its portion of the taxes collected. The full tax rate for all City operations for the year ended December 31, 2002, was \$16.03 per \$1,000 of assessed value. The assessed value of real and tangible personal property upon which 2002 property tax receipts were based are as follows:

Real Property Tax Assessed Valuation	\$67,179,010
Public Utility Tangible Personal Property Assessed Valuation	1,399,720
Tangible Personal Property Assessed Valuation	<u>2,526,559</u>
	<u>\$71,105,289</u>

Property taxes receivable represent real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2002. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31, nor are they intended to finance 2002 operations. The receivable is therefore offset by a credit to deferred revenue.

NOTE F - RECEIVABLES

Receivables at December 31, 2002, consisted of taxes, intergovernmental receivables arising from grants, entitlements and shared revenues, special assessments, interest on investments and utility accounts. All receivables are considered fully collectible. Utility Accounts Receivable at December 31, 2002 were \$88,570.

A summary of intergovernmental receivables follows:

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2002

NOTE F - RECEIVABLES (CONTINUED)

GENERAL FUND

Local government assistance	\$ 9,568
Fines and forfeitures	<u>755</u>
Total general fund	10,323

SPECIAL REVENUE FUNDS

State Highway Fund

Gas tax	722
Motor vehicle license tax	185

Street Maintenance and Repair Fund

Gas tax	8,900
Motor vehicle license tax	2,288
Permissive tax	<u>2,792</u>

Total special revenue funds 14,887

Total all funds \$ 25,210

By statute, local property taxes are reduced 10%, with additional reductions for the elderly and the disabled. The amount of these reductions, estimated to be approximately \$118,914, will be paid to the City by the State of Ohio in 2003.

NOTE G - FIXED ASSETS

General Fixed Assets

Changes in general fixed assets during the year ended December 31, 2002 were as follows:

	Balance at January 1, <u>2002</u>	<u>Additions</u>	<u>Deletions</u>	Balance at December 31, <u>2002</u>
Land	\$ 561,586	\$ -	\$ -	\$ 561,586
Buildings	385,865	546,671	-	932,536
Equipment	1,491,116	170,222	5,400	1,655,938
Construction in progress	<u>142,635</u>	<u>-</u>	<u>142,635</u>	<u>-</u>
Totals	<u>\$2,581,202</u>	<u>\$ 716,893</u>	<u>\$ 148,035</u>	<u>\$3,150,060</u>

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2002

NOTE H - DEFINED BENEFIT PENSION PLANS

Both the Police and Firemen's Disability Pension Fund and the Public Employees Retirement System are reported using GASB Statement No. 27 "Accounting for Pensions by State and Local Governmental Employers".

Substantially all City employees are covered by one of two cost-sharing multiple-employer defined benefit pension plans, namely, the Police and Firemen's Disability Pension Fund or the Public Employees Retirement System of Ohio (PERS). Both funds provide retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries.

Public Employees Retirement System

Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. The Public Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the fund. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 466-2085 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 8.5% for employees other than law enforcement. The law enforcement classification consist of Sheriff, Deputy Sheriff and township police with an employee contribution rate of 10.1%. Public safety division member contribute at 9%. No employees of the city fit the new PERS law enforcement program. The 2002 employer contribution rate for local government employers units was 13.55% of covered payroll. The City's contributions to the plan for the years ending December 31, 2000, 2001 and 2002 were \$78,709, \$107,751 and \$122,737. The amount paid by the City includes both the employer's contribution as well as the employee's contribution (pick-up) for certain employees. The unpaid contribution for 2002 was \$27,986 with \$15,654 recorded in the general long-term debt account group and the remaining \$12,302 recorded in the respective enterprise funds.

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2002

NOTE H - DEFINED BENEFIT PENSION PLANS (CONTINUED)

Police and Firemen's Disability Pension Fund

The City of Union contributes to the Police and Firemen's Disability and Pension Fund (PFDPF), a cost-sharing multiple-employer defined benefit pension plan. PFDPF provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. The Police and Firemen's Disability Pension Fund issues a publicly available financial report that includes financial statements and required supplementary information for the plan. Interested parties may obtain a copy by making a written request to 140 East Town Street, Columbus, Ohio 43215-5164, or by calling (614) 228-2975.

The Ohio Revised Code provides statutory authority for employee and employer contributions. Plan members are required to contribute 10.0% of their annual covered salary and the City contributed 19.5% for Police employees. The City contributions to the plan for the years ended December 31, 2000, 2001, and 2002 were \$50,540, \$54,069 and \$56,972. The City's contributions include a full pick-up on the police chief. The unpaid contribution for 2002 was \$12,332 and is recorded as a long-term liability in the general long-term debt account group.

NOTE I - POSTEMPLOYMENT BENEFITS

1. PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)

The Public Employees Retirement System of Ohio provides postemployment health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit.

Health care coverage for disability recipients and primary survivor recipients is available. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care based on authority granted by State statute. The employer contribution rate was 13.55 percent; 5.0 percent was the portion that was used to fund health care for the year 2002.

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2002

NOTE I - POSTEMPLOYMENT BENEFITS (CONTINUED)

1. PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS) (CONTINUED)

Other postemployment benefits are financed through employer contributions and investment earnings there on. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions are expected to be sufficient to sustain the program indefinitely.

The City's actual contributions for 2002 which were used to fund postemployment benefits were \$45,290.

The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were 16.4 billion and 4.8 billion respectively. As of December 31, 2001, the unaudited estimated net assets available for future other postemployment benefits payments were \$11,600,000,000. The number of benefit recipients eligible for other postemployment benefits at December 31, 2001 was \$402,021.

2. POLICE AND FIREMEN'S DISABILITY AND PENSION FUND (P&FDPF)

The Police and Firemen's Disability and Pension Fund provides post retirement health care coverage to any person who receives or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending full-time or on a 2/3 basis. The Ohio Revised Code provides the authority allowing the System's board of trustees to provide health care coverage and states that health care cost paid from the System shall be included in the employer's contribution rate. The total police employer contribution is 19.5 percent of covered payroll of which 7.75 percent was applied to the postemployment health care program. Health care funding and accounting is on a pay-as-you-go basis.

The number of participants eligible to receive health care benefits was 13,174 for police. The City's actual contributions for 2002 that were used to fund postemployment benefits were \$22,618. The fund's total health care expenses for the year ending December 31, 2001 (the latest information available) were \$122,298,771, which was net of member contributions of \$6,874,699.

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2002

NOTE J - OTHER EMPLOYEE BENEFITS

1. COMPENSATED ABSENCES

a. Accumulated Unpaid Vacation

City employees earn vacation leave at varying rates based upon length of service. In the case of death or retirement, an employee (or his estate) is paid for his unused vacation leave. The total obligation for vacation accrual for the City as a whole amounted to \$54,718 at December 31, 2002.

b. Accumulated Unpaid Sick Leave

All hourly employees earn 4.6 hours of sick leave per 80 hours worked. All salaried employees earn sick leave at the rate of 1.25 days per month. Upon qualifying to retire under one of the two pension systems an employee who has unused accumulated sick leave of up to 60 days is eligible to be paid for a portion of these hours. An employee with between 10 and 20 years of service will be paid at a rate of one day's pay for every two days accrued. An employee with over twenty years of service shall receive one day's pay for each day of accumulated sick leave. The total obligation for sick leave accrual for the City as a whole as of December 31, 2002 was \$61,372.

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2002

NOTE K - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During 2002 the City renewed their contract with the Ohio Government Risk Management Plan. This Plan does not operate as a risk pool, but provides conventional insurance protection and reinsures these coverages 100 percent. The type of coverage and deductible for each is as follows:

<u>Type of Coverage</u>	<u>Per Occurrence</u>	<u>Deductible</u>
General Liability	\$3,000,000	no deductible
Police Liability	\$3,000,000	\$ 2,500
Errors and Omissions	\$3,000,000	2,500
Automobile	\$3,000,000	1,000
Property Insurance	\$3,339,231	1,000
Inland Marine	\$ 698,437	250
Fire Vehicle	\$ 495,000	1,000
Crime	\$ 10,000	100
EDP	\$ 25,000	250

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

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

The City has elected to provide employee medical insurance benefits through John Alden Life Insurance Company. The City covers the employee's premiums and deductibles by budgeting \$76,600 each year for health insurance expenditures. This money is set aside to cover each employee's monthly premium and deductible of \$5,000 after the employee pays the first \$100. If the money set aside is not depleted, the City places the excess into a savings account. In 2002, the City made no contribution to the savings account and the account has a balance of \$107,260. This amount is reflected in the cash balance of each fund based on the original contribution.

Dental benefits are also provided by the City.

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2002

NOTE L - CAPITALIZED LEASES-LESSEE DISCLOSURE

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

Capital lease payments have been reclassified and are reflected as debt service in the Combined Financial Statements for the Enterprise Fund Type. These expenditures are reflected as contractual service expenses on a budgetary basis. The assets have been capitalized as equipment in the Sewer Fund for \$186,117. The city has borrowed \$150,000 and \$27,717 as a lease purchase and a liability has been recorded in the sewer fund. Principal payments in 2002 for The VacCon and Kut Kwick were \$25,312 and \$5,029 respectively.

The following is a schedule of the future minimum lease payments required under the capital leases and present value of the minimum lease payments as of December 31, 2002.

<u>December 31,</u>	Capital Lease Obligation
2003	\$ 35,235
2004	35,233
2005	6,355
2006	<u>6,355</u>
Total Minimum Lease Payments	\$ 83,178
Less: Amount Representing Interest	<u><6,402></u>
Present Value of Minimum Lease Payments	\$ <u>76,776</u>

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2002

NOTE M - SHORT-TERM OBLIGATIONS

A summary of the short-term note transactions for the year ended December 31, 2002 follows:

<u>Fund Type</u>	<u>Balance January 1, 2002</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance December 31, 2002</u>
General Fund				
Martindale Rd 1.65%	\$ 58,200	\$ 50,200	\$ 58,200	\$ 50,200
City building 1.65%	<u>99,000</u>	<u>92,400</u>	<u>99,000</u>	<u>92,400</u>
Total General Fund	<u>\$157,200</u>	<u>\$142,600</u>	<u>\$157,200</u>	<u>\$142,600</u>
Special Revenue Fund				
City Building - 1.65%	\$ 99,000	\$ 92,400	\$ 99,000	\$ 92,400
St. Rt. 48 - 2.48%	<u> -</u>	<u>144,000</u>	<u> -</u>	<u>144,000</u>
Total Special Revenue Fund	<u>\$ 99,000</u>	<u>\$236,400</u>	<u>\$ 99,000</u>	<u>\$236,400</u>
Enterprise Fund				
Phillipsburg - Union Utility - 1.65%	\$108,200	\$ 46,700	\$108,200	\$ 46,700
Water Line - 1.65%	156,400	141,600	156,400	141,600
City building - 1.65%	<u>102,000</u>	<u>95,200</u>	<u>102,000</u>	<u>95,200</u>
Total Enterprise Fund	<u>\$366,600</u>	<u>\$283,500</u>	<u>\$366,600</u>	<u>\$283,500</u>

The City classifies these notes as short-term because it is the City's plan to renew these notes each year and to pay off a portion of the principal each year.

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2002

NOTE N - LONG-TERM OBLIGATIONS

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

General Long-Term Obligation

	Balance January 1, <u>2002</u>	<u>Increase</u>	<u>Decrease</u>	Balance December 31, <u>2002</u>
Compensated absences	\$ 67,988	\$ -	\$ 3,167	\$ 64,821
Intergovernmental payable	29,122	-	1,136	27,986
Various purpose general obligation bonds payable	<u>258,360</u>	<u>-</u>	<u>60,000</u>	<u>198,360</u>
Total general long-term obligations	<u>\$ 355,470</u>	<u>\$ -</u>	<u>\$ 64,303</u>	<u>\$ 291,167</u>

	Balance January 1, <u>2002</u>	<u>Increase</u>	<u>Decrease</u>	Balance December 31, <u>2002</u>
<u>Enterprise Funds</u>				
Various purpose general obligation bonds payable	\$ 276,640	\$ -	\$ 65,000	\$ 211,640
Capital lease obligation	<u>107,117</u>	<u>-</u>	<u>30,341</u>	<u>76,776</u>
Total-Enterprise Fund type	<u>\$ 383,757</u>	<u>\$ -</u>	<u>\$ 95,341</u>	<u>\$ 288,416</u>

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2002

NOTE N - LONG-TERM OBLIGATIONS (CONTINUED)

As of December 31, 2002, the City's overall legal debt margin (the ability to issue additional amounts of general obligation bonded debt) was \$7,466,055. Principal and interest requirement to retire long-term obligations outstanding at December 31, 2002 are as follows:

<u>Year</u> <u>Ending</u>	<u>General</u> <u>Obligation</u> <u>Bond</u>	<u>Enterprise</u> <u>General</u> <u>Obligation</u> <u>Bond</u>
2003	\$ 70,771	\$ 76,669
2004	70,582	76,463
2005	<u>74,256</u>	<u>77,052</u>
Total Principal and Interest	215,609	230,184
Less Interest	<u>17,249</u>	<u>18,544</u>
Total Principal Outstanding	<u>\$198,360</u>	<u>\$211,640</u>

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2002

NOTE O - SEGMENT INFORMATION

The City's enterprise funds account for the provision of pool, sewer, water and storm water services. Key financial information for the year ended December 31, 2002, for each enterprise fund is as follows:

	<u>Pool Fund</u>	<u>Storm Water Fund</u>	<u>Sanitary Sewer Fund</u>	<u>Water- Works Fund</u>	<u>Total</u>
Operating Revenues	\$ -	\$ 83,827	\$ 607,145	\$ 474,935	\$1,165,907
Operating Expenses					
Before Depreciation	1,091	37,414	470,930	296,085	805,520
Depreciation Expense	<u>-</u>	<u>49,775</u>	<u>149,837</u>	<u>123,136</u>	<u>322,748</u>
Operating Income					
<Loss>	<u><1,091></u>	<u><3,362></u>	<u><13,622></u>	<u>55,714</u>	<u>37,639</u>
Net Non-Operating					
Revenues <Expenses>	<u>86</u>	<u>593</u>	<u><10,380></u>	<u><7,195></u>	<u><16,896></u>
Operating Transfers	<u>5,750</u>	<u><17,256></u>	<u>16,750</u>	<u>18,050</u>	<u>23,294</u>
Net Income <Loss>	<u>\$ 4,745</u>	<u>\$ <20,025></u>	<u>\$ <7,252></u>	<u>\$ 66,569</u>	<u>\$ 44,037</u>
Current Contributed					
Capital	<u>\$ -</u>	<u>\$ 85,833</u>	<u>\$ 77,090</u>	<u>\$ 106,238</u>	<u>\$ 269,161</u>
Additions to Property, Plant and Equipment	<u>\$ -</u>	<u>\$ 9,176</u>	<u>\$ 46,019</u>	<u>\$ 35,010</u>	<u>\$ 90,205</u>
Net Working Capital	<u>\$ 11,229</u>	<u>\$ 39,272</u>	<u>\$ 251,297</u>	<u>\$ 80,327</u>	<u>\$ 382,125</u>
Total Assets	<u>\$ 11,229</u>	<u>\$1,478,220</u>	<u>\$3,901,086</u>	<u>\$3,367,785</u>	<u>\$8,758,320</u>
Other Long-Term					
Liabilities Payable from Revenue	<u>\$ -</u>	<u>\$ 3,689</u>	<u>\$ 228,219</u>	<u>\$ 106,546</u>	<u>\$ 338,454</u>
Total Equity	<u>\$ 11,229</u>	<u>\$1,471,676</u>	<u>\$3,558,422</u>	<u>\$3,049,880</u>	<u>\$8,091,207</u>

City of Union, Ohio - Montgomery County

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2002

NOTE O - SEGMENT INFORMATION (CONTINUED)

During 2002, contributed capital increased by the following amounts:

<u>Source</u>	<u>Storm Water Fund</u>	<u>Sanitary Sewer Fund</u>	<u>Waterworks Fund</u>	<u>Total</u>
Contributed capital at January 1, 2002	\$1,283,047	\$2,046,165	\$1,649,793	\$4,979,005
Developers	76,635	77,090	97,040	250,765
Intergovernmental	9,198	-	9,198	18,396
Less depreciation	<u><43,863></u>	<u><64,474></u>	<u><52,469></u>	<u><160,806></u>
Contributed capital at December 31, 2002	<u>\$1,325,017</u>	<u>\$2,058,781</u>	<u>\$1,703,562</u>	<u>\$5,087,360</u>

NOTE P - FEDERAL AND STATE GRANTS

For the period January 1, 2002 to December 31, 2002 the City received federal and state grants for specific purposes that are subject to review and audit by grantor agencies or their designee. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowance, if any, would be immaterial.

NOTE Q - DEFICIT FUND EQUITY

The Police Special Revenue Fund has deficit fund equity of \$34,566 due to a note being classified as short-term within the fund. The note is being rolled over each year with a portion of principal paid.

The State Highway Special Revenue Fund has deficit fund equity of \$118,733 due to a note being classified as short-term within the fund. The note is being rolled over each year with a portion of principal paid.

CITY OF UNION, OHIO

INDEPENDENT ACCOUNTANTS' REPORT ON
COMPLIANCE AND ON INTERNAL CONTROL
REQUIRED BY GOVERNMENT AUDIT STANDARDS

FOR THE PERIOD FROM JANUARY 1, 2001 THROUGH
DECEMBER 31, 2002

Roth & Company, CPA's
215 W. National Road
Englewood, Ohio 45322

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS

To the City Council,
Mayor and City Manager
City of Union, Ohio

We have audited the general purpose financial statements of the City of Union, Ohio as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated June 3, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Union, Ohio's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Union, Ohio's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that

might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

Roth & Company
Englewood, Ohio
June 3, 2003



**Auditor of State
Betty Montgomery**

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

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

**CITY OF UNION
MONTGOMERY COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 2, 2003**