

CITY OF UNION, SOUTH CAROLINA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Prepared by:
City of Union's Departments of Finance and Administration

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City of Union, South Carolina
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INTRODUCTORY SECTION

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City Of Union

101 Sharpe Avenue
P.O. Box 987
Union, SC 29379

November 3, 2006

Members of City Council and Citizens of the City of Union, South Carolina:

State law requires that all general-purpose local governments publish at the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted accounting standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Union (City) for the fiscal year ended June 30, 2006.

This report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by Terry R. Fant, P.A., a licensed certified public accountant. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2006, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement presentation; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended June 30, 2006, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

Profile of the Government

The City, founded in 1837, is located in the central area of Union County, 28 miles southeast of Spartanburg, South Carolina. The City currently occupies a land area of 7.81 square miles and serves a population of 8,793, with a total of 29,881 people in the Greater Union area. The City of Union is empowered to levy a property tax on both real and personal properties located within its boundaries. It also is empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by governing Council.

The City of Union, as of June 30, 2006, operates under the Mayor Council form of government. Policy-making and legislative authority are vested in a governing Council consisting of the Mayor and six Councilmembers. The governing Council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and appointing the government's clerk, magistrate, and attorney. The Mayor acts in a legislative capacity as a member of the Council. He acts in an executive capacity as chief administrator of the Council's policies. The Mayor is responsible for carrying out policies and ordinances of the governing Council, for overseeing the day-to-day operations of the government, and for appointing, with Council ratification, the heads of various departments. The Council is elected on a non-partisan basis. Councilmembers serve four-year staggered terms, with

three Councilmembers elected every two years. The Mayor is elected to serve a four-year term. All six of the Councilmembers are elected by district. The Mayor is elected at large.

The City provides a full range of services, including: police and fire protection; the maintenance of streets and other infrastructure; recreational activities and cultural events; sanitation services; electric, water, sewer and natural gas services.

The annual budget serves as the foundation for the City's financial planning and control. All departments of the City of Union are required to submit requests for appropriations to the Mayor on or before the last day in February each year. The Mayor uses these requests as the starting point for developing a proposed budget. The Mayor then presents this proposed budget to the Council for review prior to March 31. The Council is required to hold a public hearing on the proposed budget and to adopt a final budget by no later than June 30, the close of the City of Union's fiscal year. The appropriated budget is prepared by fund, department (e.g., finance) and division (e.g., purchasing). Budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is maintained by the Mayor at the departmental level and may be amended as necessary during the fiscal year. Budget-to-actual comparisons are provided in the report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund, this comparison is presented on page 35 as part of the basic financial statements for the governmental funds.

Factors Affecting Financial Conditions

The formation presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City operates.

Local economy. The City is centrally located to all Eastern and Southeastern markets. It is approximately in the center of the country's fifth largest trade area with approximately 5 million people in a 100-mile radius. Over half of the United States' population can be reached within a day's drive or a 90-minute flight. The City is a 1-hour drive from Charlotte/Douglas Airport, the Columbia Metro Airport and the Greenville/Spartanburg Airport. The City is a 3-hour drive from the port of Charleston.

The City is considered to be forward thinking and receptive to development. However, the overall economic condition of the City trails both state and national indicators. The decline of the textile industries has heavily impacted the local economy, with unemployment at 9.9% at June 30, 2006.

Nonetheless, the City's continuing effort to invest in itself has been fruitful. The City's two business parks continue to be a magnet for new jobs and diversified economic development. A diversified mix of employers is a standing goal. Recently a new company, LSP Inc. has announced and are currently under construction of a new manufacturing facility which will be located at Union Commerce Park. With \$100 million in investment and a start-up employment of approximately 130 people, Union's future is much brighter. The LSP operation is scheduled to begin in the Spring of 2008. High-skilled robotic technicians and ongoing technical training will boost Union's economy.

Long-term financial planning. A continued emphasis on long range, conservative financial planning is essential to the City's future success. Options and strategies introduced and continued in 2006 include:

- Ensure that any new City initiative, program or service has a direct and dependable funding source and monitor existing services to meet cost-to-serve goals.
- Continue to promote sound economic development strategies and maintenance of the City's utility system.
- Benchmark services similar to other communities.
- Pursuit of intergovernmental cooperation/consolidation.

Cash management policies and practices. Cash temporarily idle during the year was invested in certificates of deposit, state investment pools, and repurchase agreements. The investment goal of the City is to maintain adequate cash to meet current obligations and to invest in those legal securities that maximize earnings and protect principal. Monies that are not required on a short-term basis are invested in compliance with the guidelines of the South

Carolina Code of Laws 6-5-10. The yield on investments for the year ended June 30, 2006 varied from approximately 3.15 percent to 5.66 percent. The average yield on overnight federal funds for that period was 4.51 percent. The City earned interest revenue of \$756,627 on all investments for the year ended June 30, 2006.

Risk Management. The City carries its insurance for general liability, property and automobile coverage with the South Carolina Municipal Insurance and Risk Financing Fund through the Municipal Association of South Carolina, a self-insured pool of municipalities throughout South Carolina. Workers' compensation is carried with the South Carolina Municipal Insurance Trust Fund through the Municipal Association of South Carolina. This pool is also self-insured and is made up of municipalities throughout South Carolina.

Safety programs are carried out by the City's Human Resources Department, with oversight coming from both the Finance Director and the Mayor. Each department of the City has a safety representative who works with the Human Resources Department to coordinate safety meetings and programs throughout the year.

Also, several employee committees are a vital part of the City's risk management program. A central Safety Committee is chaired by City Management and is made up of department heads or their representatives from each department. This committee develops city-wide goals, policies, and procedures concerning all aspects of safety.

In addition, a Safety Incentive/Education Committee composed of supervisory personnel throughout the City recommends city-wide incentive awards to the central Safety Committee and implements approved programs. The Committee reviews all safety suggestions made by employees and recommends awards for suggestions that are adopted.

Pension and other post-employment benefits. All employees of the City participate in one of two defined benefit pension plans administered by the State of South Carolina: the South Carolina Retirement System (SCRS) and the Police Officer's Retirement System (PORS), both of which are cost sharing multiple-employer public employee retirement plans. The SCRS and PORS offer retirement and disability benefits, cost of living adjustments on an ad-hoc basis, life insurance benefits and survivor benefits. The plans' provisions are established under Title 9 of the SC Code of Laws. Both employees and the City are required to contribute to the SCRS and PORS at rates established under the authority of Title 9 of the Code of Laws. The City's contributions are actuarially determined, but are communicated to and paid by the City as a percentage of the employee's annual earnings.

The City provides limited post-retirement health care benefits to all employees that meet certain service requirements. This program is authorized by the City's Personnel Resolution, which is approved by City Council. Expenditures for post-retirement health care benefits are recognized when premiums are paid. During the year ended June 30, 2006, expenditures were recognized for post-retirement health care insurance premiums for five retirees.

Additional information on the City's pension arrangements and post-employment benefits can be found in Notes V.F-G, beginning on page 62, in the financial statements.

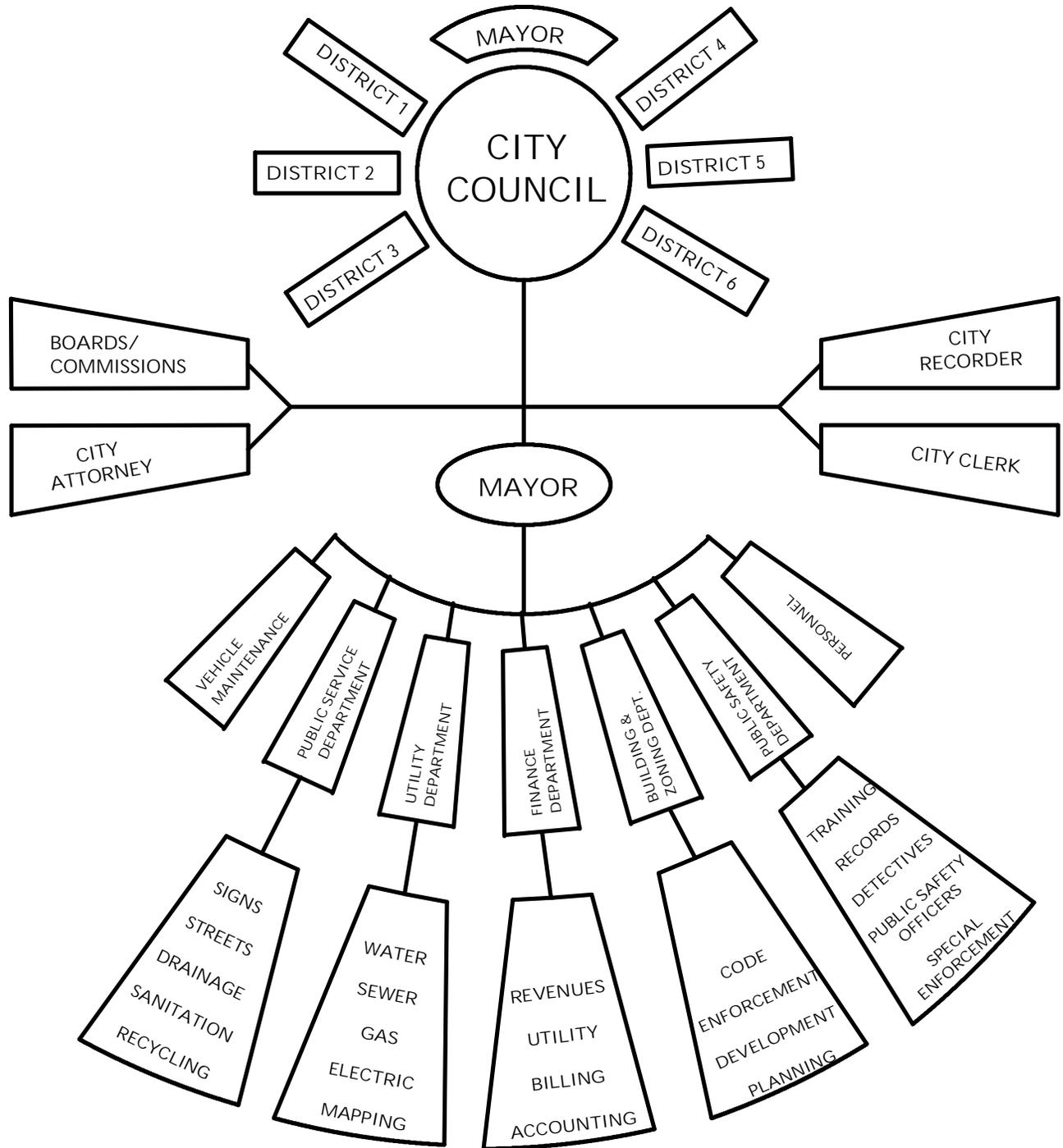
Acknowledgements

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the finance and administration department. We would like to express our appreciation to all members of the department who assisted and contributed to the preparation of this report. Credit also must be given to the governing Council for their unflinching support for maintaining the highest standards of professionalism in the management of the City of Union's finances.

Respectfully submitted,



E. Bruce Morgan
Mayor



City of Union, South Carolina
CITY OFFICIALS
As of June 30, 2006

Mayor	E. Bruce Morgan
Councilmembers	Fran Bailey Paul J. Glenn Ricky Todd Harris Keith Henderson Orangelow W. Ruff Harold Thompson
Finance Director	Walker C. Gallman, Jr.
City Clerk	Gloria Rogers

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FINANCIAL SECTION

TERRY R. FANT, P.A.
CERTIFIED PUBLIC ACCOUNTANT
309 WEST MAIN STREET
UNION, SC 29379-2216
864-427-4736

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Union, South Carolina

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Union, South Carolina, as of and for the year then ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Union's management. My responsibility is to express opinions on these general purpose financial statements based on my audit.

I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

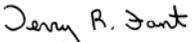
In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Union, South Carolina, as of June 30, 2006, and the respective changes in financial position, and, where applicable, cash flows and budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued my report dated November 3, 2006, on my consideration of the City of Union, South Carolina's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in conjunction with this report in considering the results of my audit.

The management's discussion and analysis and the budgetary comparison information that follow this report are not a required part of the basic financial statements but are supplemental

information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplemental information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Union, South Carolina's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, the statistical schedules, and the supplement schedules listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the City of Union, South Carolina. The combining and individual nonmajor funds financial statements and supplemental schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, I express no opinion on them.


Terry R. Fant, CPA, PA
November 3, 2006

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CITY OF UNION, SOUTH CAROLINA

Management’s Discussion and Analysis

As management of the City of Union, we offer readers of the City of Union’s financial statements this narrative overview and analysis of the financial activities of the City of Union for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 3-5 of this report.

Financial Highlights

- The assets of the City of Union exceeded its liabilities at the close of the most recent fiscal year by \$67,493,446 (*net assets*). Of this amount, \$21,662,543 (*unrestricted net assets*) may be used to meet the government’s ongoing obligations to citizens and creditors.
- The governments total net assets increased by \$1,352,238.
- As of the close of the current fiscal year, the City of Union’s governmental funds reported combined ending fund balance of \$7,251,388, a decrease of \$500,073 in comparison with the prior year. Approximately 44 percent of this total amount, \$3,197,637 is available for spending at the government’s discretion (*unreserved General Fund balance*). \$1,156,221 of the total governmental fund balance is insurance proceeds received when the old Union High School was destroyed. \$1,000,000 of this fund was donated to the Union Community Foundation. The remainder of the funds remain unreserved and may be used for future projects.

The remaining fund balance, \$2,897,530 that comprises the governmental funds, includes the following:

- 1) Downtown Redevelopment Project (Tax Increment) – The \$63,290 remaining in this fund balance can be used to enhance City of Union-owned property within the district.
- 2) Drug Account – This account is derived from confiscated drug money or property by order of the courts. Expenditures can only be for law enforcement activities. Fund balance at June 30, 2006, was \$6,545.
- 3) Victims’ Rights Advocate Fund – Fees and surcharges on fines comprise this fund balance. Per the City of Union’s agreement with Union County, 75% of all fees and surcharges collected are remitted to them. The remaining fund balance can only be used for victims of crime-related expenditures. Fund balance at June 30, 2006, was \$39,591.
- 4) Community Change – Participating utility customers have their bill rounded up to the next dollar. Funds generated from this are maintained in a separate bank account and are used to pay \$1,750 per month to The Salvation Army, per the City of Union’s agreement. The Salvation Army uses these funds to pay a mortgage on the homeless shelter on Greene Street. The remainder of fund balance has been used to offset utility bills for qualifying customers. Fund balance at June 30, 2006, was \$21,312.
- 5) Public Safety Grant – These funds are grant funds received to purchase law enforcement equipment. A generator, imaging equipment, and body armor was purchased with these funds. There was no fund balance at year end.
- 6) “C” Funds – Funds received from the Union County Transportation Committee for street paving and replacement of sidewalks. There was no fund balance at year end.
- 7) “PMPA” funds – Funds received from Piedmont Municipal Power Agency, a joint action agency the City of Union is a member of. These funds are appropriated by this agency to member cities for promotional activities. Fund balance at June 30, 2006 is \$16,460.
- 8) Economic Development Fund – This fund is comprised of several promissory notes receivable from projects rehabilitating buildings in downtown Union. These notes are as follows:

A.	Fairforest I	\$ 32,758
B.	Fairforest II	953,588
C.	Fairforest II	50,868
D.	Fairforest IV	235,000
E.	Fairforest IV	38,728
F.	Fairforest V	<u>575,000</u>
		\$1,885,942

The following details each note:

- A. The City of Union has a promissory note from Fairforest Limited Partnership in the amount of \$65,000. The note, dated May 14, 1993, has a 4.5% interest rate with yearly payments due annually for 24 years. The remaining balance at June 30, 2006, of \$32,748 is reported in the Economic Development Fund.
- B. The City of Union has promissory notes receivable from Fairforest II Limited Partnership in the amount of \$953,588 dated 09-26-94. The Construction Loan portion of the note in the amount of \$843,512 has an interest rate of 1%. The Acquisition Loan portion of the note in the amount of \$110,076 has an interest rate of 5.84%. Both loans have a balloon payment at the end of 35 years. At that time, the borrower has a conditional option to extend the loan for an additional 15 years. The balance at June 30, 2006, of \$953,588 is reported in the Economic Development Fund.
- C. The City of Union has a promissory note from Fairforest Limited Partnership in the amount of \$50,868. The note, dated in 1994, has a 0% interest rate with a balloon payment due in 51 years. The balance at June 30, 2006, of \$50,868 is reported in the Economic Development Fund.
- D. The City of Union has a promissory note from Fairforest IV Limited Partnership in the amount of \$235,000. The note, dated September 3, 1997, is non-interest bearing and is due in 40 annual consecutive payments beginning on the 30th anniversary of the loan date. The payment amount will be based on adjusted cash flows derived from operations. The note receivable balance is reported in the Economic Development Fund.
- E. The City of Union has a promissory note from Fairforest IV Limited Partnership in the amount of \$55,000. The note, dated September 3, 1997, is non-interest bearing in years 1 through 5, 1% in years 5 through 10, and 3% in years 10 through 15. Payments are to start during the 6th year and continue through the 15th year. The note receivable balance as of June 30, 2006 is \$38,728.
- F. The City of Union has a promissory note from Fairforest V Limited Partnership in the amount of \$245,000 and \$330,000. The terms of the note are as follows:

\$245,000 Repayment: Two Hundred Forty-Five Thousand and 00/100 Dollars (\$245,000) of the outstanding principal balance hereunder (the "City of Union Loan") shall accrue interest at one percent (1%) per annum, and, commencing on December 31 following the first (1st) anniversary of the Completion Date, through and including the December 31 following the thirtieth (30th) anniversary of the Completion Date, Borrower shall make annual payments on each December 31 in the amount equal to Two Thousand Four Hundred Fifty and 00/100 Dollars (\$2,450). Commencing with the January 1 following the December 31 following the thirtieth (30th) anniversary of the Completion Date, the outstanding principal balance on the City of Union Loan shall accrue interest at two percent (2%) per annum and shall be paid in twenty (20) equal annual installments of Fourteen Thousand Eight Hundred Forty-Eight and 00/100 Dollars (14,848) commencing on the December 31 following the thirty-first (31st) anniversary of the Completion Date and continuing through the December 31 following the fiftieth (50th) anniversary of the Completion Date.

\$330,000 Repayment: The Three Hundred Thirty Thousand and 00/100 Dollars (\$330,000) portion of the outstanding principal balance, which represents CDBG funds (the "CDBG Loan"), shall not bear interest, and there shall be no payment of principal of thereof for thirty (30) years following the Completion Date. Beginning with the December 31 following the thirty-first (31st) anniversary of the Completion Date, and continuing through the December 31 following the fiftieth (50th) anniversary of the Completion Date, Borrower shall make twenty (20) equal annual payments of principal on the date of such anniversary equal to Sixteen Thousand Five Hundred and 00/100 Dollars (\$16,500).

Also included in the Economic Development Fund is \$1,206,726, which represents the investment in the Spec Building located at the Union County Commerce Park. This building is a joint effort between the City of Union and Union County.

- 8) Firemen's Fund - The source of these funds is derived from premiums of the insurance business required to be reported to the State Treasurer. The State Treasurer remits these funds to the Union County Treasurer, who allocates the funds to all the fire departments in the County (including the City of Union). These funds are expended based on a budget that is presented and approved by over 50% of fire personnel at the City of Union. The fund balance at June 30, 2006, was \$10,957.
 - 9) Capital Improvement Fund – The source of funds in this account was transferred in previous years to finance specific recreation, street and/or sidewalk projects. Funds have been appropriated to fund a “Lifetrial” Program and administrative cost of the Opportunity Grant Phase I. The fund balance at June 30, 2006, was \$21,496.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$3,197,637 or 69.26 percent of the total fund expenditures.
 - The City of Union had \$13,798,583 in bonds and notes outstanding versus \$14,102,459 last year, a decrease of \$303,876. This decrease is the net of a lease entered into to fund the purchase of a fire truck and garbage truck and principle payment paid during the year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Union's basic financial statements. The City of Union's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Union's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City of Union's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases and decreases in the net assets may serve as a useful indicator of whether the financial position of the City of Union is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Union that are supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Union include general government, public safety, tax and license, public service, and building and zoning. The business-type activities of the City of Union include electric, water, sewer, gas, and solid waste.

The government-wide financial statements can be found on pages 25-27 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Union, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Union can be divided into these categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to

compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Union maintains twelve individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and insurance proceeds fund, both of which are considered to be major funds. Data from the other eleven governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City of Union adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 28-33 of this report.

Proprietary funds. The City of Union maintains two types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide statements. The City of Union uses enterprise funds to account for its electric, water, sewer and gas as a combined utility and a solid waste management fund.

Proprietary funds provide the same types of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the electric, water, sewer, gas (combined utility), and solid waste operations, all of which are considered to be major funds of the City of Union.

The basic proprietary fund financial statements can be found on pages 34-39 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City of Union's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The City of Union has no operations that meet the definition of this fund type.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 41-62 of this report.

Other information. In addition to the basic financial statements and accompanying notes, the report also presents certain *required supplementary information* in this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 64-72 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Union, assets exceeded liabilities by \$67,493,446 at the close of the most recent fiscal year. By far the largest portion of the City of Union's net assets (67 percent) reflects its investment in capital assets (e.g. land, building, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The City of Union uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Union's investment in its capital assets reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Union's Net Assets						
	Governmental activities		Business-type activities		Total	
	2005	2006	2005	2006	2005	2006
Current and other assets	\$8,727,396	\$8,293,681	\$18,162,113	\$17,874,801	\$26,889,509	\$26,168,482
Capital assets	3,060,160	3,360,468	53,765,344	54,966,500	56,825,507	58,326,968
Total assets	11,787,556	11,654,149	71,927,457	72,841,301	83,715,016	84,495,450
Long-term liabilities outstanding	228,313	382,761	12,500,135	12,555,449	12,728,448	12,938,210
Other liabilities	1,001,317	1,069,680	3,844,040	2,994,113	4,845,357	4,063,793
Total liabilities	1,229,630	1,452,441	16,344,175	15,549,562	17,573,805	17,002,003
Net assets:						
Invested in capital assets, net of related debt	2,221,625	2,408,254	40,974,285	42,129,651	43,195,910	44,537,905
Restricted	2,871,330	381,756	860,308	911,242	3,731,638	1,292,998
Unrestricted	5,464,973	7,411,696	13,748,689	14,250,847	19,213,662	21,662,543
Total net assets	\$10,557,928	\$10,201,706	\$55,583,282	\$57,291,740	\$66,141,210	\$67,493,446

The balance of unrestricted net assets (\$21,662,543) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Union is able to report positive balances in two categories of net assets, both for the government as a whole, as well as for its separate business-type activities. The same situation held true for the prior fiscal year.

Restricted net assets reported in connection with the City of Union's governmental activities are \$381,756. This number represents special revenue designed for a specific purpose.

Restricted net assets reported in connection with the City of Union's business-type activities are \$911,242. This number represents debt payments and debt reserve funds held by the trustee.

Governmental activities. Governmental activities decreased the City of Union's net assets by \$356,220. The main reason for the decrease was the funding of the Union Community Foundation in the amount of \$1,000,000. Key elements of this decrease are as follows:

- The City of Union's General Fund revenue exceeded budget by \$442,238, due mainly to increases in payment-in-lieu of taxes, licenses, permits and fees, and state collected taxes compared to budget. City of Union staff has always used a conservative approach to projecting revenues. This is because our revenues are volatile and driven by the economy.
- General Fund expenditures were under budget by \$240,900. The City Council's philosophy has always been to prepare a budget that addresses the needs of the citizens of the City of Union. They have also demanded that City of Union Staff maintain control of their respective budgets.
- Non-major Governmental Funds had a net increase in fund balance of \$170,880. Key elements of this increase are as follows:
 - 1) Tax Increment District property taxes received increased by \$22,075. This was due mainly to timing of collections. The district receives the incremental increase of the value of property within the Tax Increment district established in 1993, based on the tax levy of the City of Union, Union County, and Union School District.
 - 2) The City of Union appropriated \$105,000 to match the Opportunity Grant Phase II received from the State of SC Department of Commerce. The amount of the grant was \$950,000.
- Insurance Proceeds Fund – This fund was set up with insurance funds received when the old Union High School burned. The City of Union had taken ownership of this building from the School District. During the year City Council appropriated funds from this fund to fund the Union Community Foundation in the amount of \$1,000,000.

City of Union's Changes in Net Assets						
	Governmental activities		Business-type activities		Total	
	2005	2006	2005	2006	2005	2006
Revenues:						
Program revenues:						
Charges for services	275,912	241,322	33,925,894	39,705,671	34,201,806	39,946,993
Operating grants and contributions	68,168	837,395			68,168	837,395
Capital grants and contributions	233,718	60,019	37,300	43,668	271,018	103,687
General revenues:						
Property taxes	1,038,276	1,060,247			1,038,276	1,060,247
Other taxes	3,196,268	3,297,817			3,196,268	3,297,817
Other	796,627	769,727	376,627	595,090	1,173,254	1,364,817
Total revenues	5,068,969	6,266,527	34,339,821	40,344,429	39,948,790	46,610,956
Expenses:						
General government	1,706,911	2,234,430			1,706,911	2,234,430
Tax & License	108,944	111,071			108,944	111,071
Facilities maintenance	87,838	145,602			87,838	145,602
Public safety	2,498,566	3,358,993			2,498,566	3,358,993
Public works	582,095	418,417			582,095	418,417
Building & Zoning	180,088	207,354			180,088	207,354
Electric			10,800,996	11,666,623	10,800,996	11,666,623
Water			2,359,369	2,551,844	2,359,369	2,551,844
Sewer			2,175,282	2,178,675	2,175,282	2,178,675
Gas			15,821,909	21,016,137	15,821,909	21,016,137
Solid Waste Mgt.			678,412	797,448	678,412	797,448
Interest expense	15,151	16,880	680,116	555,244	695,267	572,124
Total expenses	5,179,593	6,492,747	32,516,084	38,765,971	37,695,677	45,258,718
Increase in net assets before transfer	429,376	-226,220	1,823,737	1,578,458	2,253,113	1,352,238
Transfers	-130,000	-130,000	130,000	130,000	0	0
Increase in net assets	299,376	-356,220	1,953,737	1,708,458	2,253,113	1,352,238
Net assets – 06/30/05	10,258,552	10,557,928*	53,629,544	55,583,282	63,888,096	66,141,210
Net assets – 06/30/06	10,557,928	10,201,708	55,583,281	57,291,740	66,141,210	67,493,448

Business-type activities. Business-type activities increased the City of Union's net assets by \$1,708,458, accounting for 73 percent of the total growth in the government's net assets. Key elements of this increase are as follows:

- Charges for service for business-type activities increased by 17 percent. Electric sales increased 8 percent. The conclusion we came to for this increase was our electric customers turned down or off their natural gas appliances because of the historically high natural gas price. Natural gas rates remain volatile, but are projected to be less for FY

2007. Water and wastewater rates will remain the same for FY 2007, even with the continued loss in our wastewater system. The solid waste management fees collected increased by less than 1%, but the monthly fee remained at \$15.00. Together, these factors account for the \$5,779,777 increase in charges for electric, water, wastewater, gas, and solid waste operations. Even though charges for services increased by the above, operating expenses increased by \$6,249,886. This increase in expenses is due mainly to the cost of natural gas that increased \$4,961,068.

- There were capital contributions to the Combined Utility during the current year totaling \$43,688.
- Investment earnings increased by \$218,463 for business-type activities, due mainly to increased rates of return on our investments.

Financial Analysis of the Government's Funds

As noted earlier, the City of Union uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City of Union's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City of Union's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Union's governmental funds reported combined ending fund balance of \$7,251,388, a decrease of \$500,073 in comparison with the prior year. Approximately 60 percent of this total amount (\$4,044,954) constitutes *unreserved fund balance*, of which \$3,197,637 (net of inventory reserve), or 44 percent, is available for spending at the government's discretion. \$1,156,221 represents insurance proceeds received when the old Union High School building was destroyed. Although these funds are unreserved, the use of these funds is being studied and may be reserved.

The general fund is the chief operating fund of the City of Union. At the end of the current fiscal year, unreserved fund balance of the general fund was \$3,197,637, while total fund balance reached \$3,198,716. As a measure of the general fund's liquidity, it may be useful to compare both unreserved and total fund balance to total fund expenditures. Unreserved fund balance represents 62.95 percent of total general fund expenditures, while total fund balance represents 62.97 percent of that same amount.

The fund balance of the City of Union's general fund increased by \$269,262 during the current fiscal year. Key factors in this increase are as follows:

- Revenue exceeded budget by \$442,238;
 - 1) Payment in lieu of taxes increased by \$140,718 due to the high cost of natural gas
 - 2) Business license fees, mainly the insurance license program, remained strong with an increase over budget of \$158,745
- Expenditures were under budget in the amount of \$240,900;
All General Fund departments were budget for FY 2006. Personnel vacancies, health care cost, and an overall effort to keep expenditures down was the main reasons for this underrun.

The fund balance of the General Fund was reduced by the following transfers:

- Transfer of \$130,000 to subsidize the Solid Waste Management Fund;
- Transfer of \$71,280 to Economic Development Fund to reimburse the Utility Enterprise Fund for advance to renovate YMCA property;
- Transfer of \$3,286 to the Public Safety Grants Fund to provide matching funds for the Homeland Security grant received to purchase and install a generator at the Public Safety Building and purchase imaging equipment.
- Transfer of \$105,000 to the Special Revenue Fund – Opportunity Grant Phase II for the City of Union's match. The grant award was for \$950,000.

Proprietary funds. The City of Union's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the electric, water, sewer, gas (combined utility), and solid waste management operations at the end of the year amounted to \$14,250,847. The total growth in the unrestricted net assets was \$502,158. Other factors concerning the finances of these funds have already been addressed in the discussion of the City of Union's business-type activities.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget was a \$371,635 increase in appropriations and can be briefly summarized as follows:

- A supplemental appropriation of \$371,635 was budgeted during fiscal year 2006 to fund the following expenditures.
- 1) \$211,635 to lease purchase a fire truck.
 - 2) \$55,000 to install new air conditioning at the YMCA (grant received from the Timken Company).
 - 3) Council also transferred funds from the Public Service department to Facilities Maintenance account to compete this project.
 - 4) \$105,000 was transferred to the Special Revenue Fund to match the 2nd phase of the Opportunity Grant of \$950,000 received from the SC Department of Revenue – Infrastructure Fund.
 - 5) \$3,286 Public Safety Grant match.

Capital Assets and Debt Administration

Capital assets. The City of Union's investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounts to \$58,326,968 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements other than buildings, and machinery and equipment. The total increases in the City of Union's investment in capital assets for the current fiscal year was less than a 1.0 percent increase for all funds.

Major capital asset events during the current year include the following:

General Fund

- Installed air conditioning at the YMCA in the amount of \$122,900. The funding source was the City of Union along with a \$55,000 grant from the Timken Company.
- Lease purchase of a fire truck in the amount of \$211,635.

Solid Waste Management

- Lease purchase of a garbage truck in the amount of \$188,365

Utility System

- Electric System (\$1,225,557)
 - Complete Electric Generation
 - Underground Service Replacement
 - Upgrades throughout the System
- Water System (\$717,806)
 - Install generator at reservoir
 - Install a chlorine/sodium hypochlorite system at water plant
 - Upgrades throughout the system
- Wastewater System (\$112,759)
 - Replace Pump Control Panel at Lukesville
 - Upgrades throughout the system
- Natural Gas System (\$712,661)
 - Phase I – Expansion of Gas System into Glenn Springs area.
 - Improvements at Commerce Park.
 - Improvement on Highway 49 to loop system.

City of Union's Capital Assets						
	Governmental activities		Business-type activities		Total	
	2005	2006	2005	2006	2005	2006
Land	\$1,172,961	\$1,172,961	\$317,976	\$317,976	\$1,490,937	\$1,490,937
Buildings and Improvements	1,413,202	1,536,102	1,986,021	1,986,021	3,399,223	3,522,123
Improvements Other Than Bldgs.	1,676,858	1,676,858	78,810,382	81,593,645	80,487,240	83,270,503
Machinery & Equip.	1,908,033	2,235,338	4,689,456	4,689,456	4,899,874	6,597,212
Total	\$6,171,054	\$6,621,259	\$85,803,835	\$88,797,516	\$91,974,889	\$95,418,775

Additional information on the City of Union's capital assets can be found in note IV.C beginning on page 53 of this report.

Long-term debt. At the end of the current fiscal year, the City of Union had total bonded debt outstanding of \$13,234,073. Of this amount \$45,396 comprises debt backed by the full faith and credit of the government and \$385,948 is a lease purchase for which the government is liable. The remainder of the City of Union's debt represents bonds secured solely by specified revenue sources (i.e. revenue bonds and a tax increment note).

City of Union's Outstanding Debt Tax Increment, General Obligation and Revenue Bonds						
	Governmental activities		Business-type activities		Total	
	2005	2006	2005	2006	2005	2006
Tax increment note	\$173,007	\$133,166			\$173,007	\$133,166
General obligation bonds	55,306	45,396			55,306	45,396
Lease Payable		204,201		181,747		385,948
Revenue bonds			13,874,146	13,234,073	13,874,146	13,234,073
Total	\$228,313	\$382,763	\$13,874,146	\$13,415,820	\$14,102,459	\$13,798,583

The City of Union's total debt decreased by \$303,876 (2 percent) during the current fiscal year. On October 26, 2005, the City of Union entered into a lease-purchase agreement for \$400,000 to purchase a fire truck and a garbage truck. The lease-purchase is due quarterly through February of 2011.

State statutes limit the amount of general obligation debt a governmental entity may issue, without a referendum, to 8 percent of its total assessed valuation. The current debt limitation for the City of Union is \$1,163,566, which is significantly in excess of the City of Union's outstanding general obligation debt.

Additional information on the City of Union's long-term debt can be found in note IV.E beginning on page 55 of this report.

Economic Factors and Next Year's Budgets and Rates

- At June 30, 2006, the unemployment rate for the City of Union is 9.9%, a decrease of 13% a year ago. In comparison, the state's unemployment rate is 6.4%, and the national rate is 4.6%.

These factors, and others, were considered in the preparation of the City of Union's budget for the 2006-07 fiscal year.

During the current fiscal year, unreserved fund balance in the General Fund increased by \$269,390 to \$3,197,637. The City of

Union has appropriated \$214,850 for spending in the 2006-07 fiscal year budget. It is intended that this use of available fund balance will avoid the need to raise taxes or charges during the 2007-08 fiscal year.

The budget prepared for fiscal year 2006-07 does not contain a tax rate increase. Electric, water, and wastewater rates remain unchanged. Natural gas rates are influenced each month by a volatile market. The sanitation fee will not increase, but a transfer of \$130,000 from the General Fund will continue to balance this fund.

Requests for Information

This financial report is designed to provide a general overview of the City of Union's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, City of Union, PO Box 987, Union, South Carolina, 29379.

BASIC FINANCIAL STATEMENTS

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City of Union, South Carolina
Statement of Net Assets
June 30, 2006

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 799,733	\$ 314,559	\$ 1,114,292
Investments	2,875,129	12,149,321	15,024,450
Receivables (net of allowance for uncollectibles)	2,337,944	2,809,474	5,147,418
Due from other funds	161,106	(161,106)	-
Interest receivable	9,431	4,194	13,625
Inventories	1,079	666,109	667,188
Advances to other funds	281,401	569,453	850,854
Deferred charges	-	794,072	794,072
Deposits	-	35	35
Capital asset held for resale	1,206,726	-	1,206,726
Temporarily restricted assets:			
Investments	-	728,689	728,689
Intergovernmental receivable	621,132	-	621,132
Capital assets not being depreciated			
Land	1,172,961	317,976	1,490,937
Capital assets being depreciated net of accumulated depreciation			
Buildings and system	1,145,169	1,283,454	2,428,623
Improvements other than buildings	165,363	52,721,908	52,887,271
Machinery and equipment	495,709	643,163	1,138,872
Infrastructure	381,266	-	381,266
Total assets	<u>11,654,149</u>	<u>72,841,301</u>	<u>84,495,450</u>
LIABILITIES			
Bank overdraft	-	354,767	354,767
Accounts payable and other current liabilities	279,902	2,185,131	2,465,033
Retainage Payable	-	42,721	42,721
Unearned revenue	167,576	-	167,576
Accrued interest payable	-	41,236	41,236
Accrued compensated absences	52,749	88,857	141,606
Advances from other funds	569,453	281,401	850,854
Noncurrent liabilities:			
Due within one year	92,592	714,319	806,911
Due in more than one year	290,169	11,841,130	12,131,299
Total liabilities	<u>1,452,441</u>	<u>15,549,562</u>	<u>17,002,003</u>
NET ASSETS			
Invested in capital assets, net of related debt	2,408,254	42,129,651	44,537,905
Restricted for:			
Community assistance	21,313	-	21,313
Tax increment district debt service and improvements	210,624	-	210,624
Debt service	-	911,242	911,242
Public safety	110,227	-	110,227
Victims rights assistance	39,592	-	39,592
Unrestricted	7,411,696	14,250,847	21,662,543
Total net assets	<u>\$ 10,201,706</u>	<u>\$ 57,291,740</u>	<u>\$ 67,493,446</u>

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

City of Union, South Carolina
Statement of Activities
For the Year Ended June 30, 2006

	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
Primary government:			
General government	\$ 2,234,430	\$ -	\$ 20,000
Tax and licenses	111,071	-	-
Facilities maintenance	145,602	-	-
Public safety	3,358,993	215,442	817,395
Public service	418,417	-	-
Building and zoning	207,354	25,880	-
Interest on long-term debt	16,880	-	-
Total governmental activities	<u>\$ 6,492,747</u>	<u>\$ 241,322</u>	<u>\$ 837,395</u>
Business-type activities:			
Solid waste management	816,467	736,429	-
Electric utility	11,725,726	13,421,703	-
Water utility	2,733,619	2,816,734	-
Sewer utility	2,344,731	1,900,465	-
Gas utility	21,145,426	20,830,340	-
Total business-type activities	<u>38,765,969</u>	<u>39,705,671</u>	<u>-</u>
Total primary government	<u>\$ 45,258,716</u>	<u>\$ 39,946,993</u>	<u>\$ 837,395</u>

General revenues:

- Taxes
 - Property taxes
 - Fee in lieu of property taxes
 - Other taxes
 - Occupational licenses and franchise fees
- Miscellaneous
- Unrestricted investment earnings
- Intergovernmental revenue
- Contributed capital
- Transfers
 - Total general revenues, special items, and transfers
 - Change in net assets
- Net assets - beginning
- Net assets - ending

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

**Net (Expenses) Revenues and
Changes in Net Assets**

Capital Grants and Contributions	Primary Government		
	Governmental Activities	Business-type Activities	Total
\$ -	\$ (2,214,430)	\$ -	\$ (2,214,430)
-	(111,071)	-	(111,071)
-	(145,602)	-	(145,602)
-	(2,326,156)	-	(2,326,156)
60,019	(358,398)	-	(358,398)
-	(181,474)	-	(181,474)
-	(16,880)	-	(16,880)
<u>\$ 60,019</u>	<u>\$ (5,354,011)</u>	<u>\$ -</u>	<u>\$ (5,354,011)</u>
-	-	(80,038)	(80,038)
-	-	1,695,976	1,695,976
43,668	-	126,782	126,782
-	-	(444,266)	(444,266)
-	-	(315,086)	(315,086)
<u>43,668</u>	<u>-</u>	<u>983,368</u>	<u>983,368</u>
<u>\$ 103,687</u>	<u>\$ (5,354,011)</u>	<u>\$ 983,368</u>	<u>\$ (4,370,643)</u>

1,060,247	-	1,060,247
1,692,718	-	1,692,718
467,093	-	467,093
1,039,364	-	1,039,364
98,642	-	98,642
161,537	595,090	756,627
553,190	-	553,190
55,000	-	55,000
<u>\$ (130,000)</u>	<u>\$ 130,000</u>	<u>\$ -</u>
<u>4,997,791</u>	<u>725,090</u>	<u>5,722,881</u>
<u>(356,220)</u>	<u>1,708,458</u>	<u>1,352,238</u>
<u>10,557,928</u>	<u>55,583,282</u>	<u>66,141,210</u>
<u>\$ 10,201,708</u>	<u>\$ 57,291,740</u>	<u>\$ 67,493,448</u>

City of Union, South Carolina
Balance Sheet
Governmental Funds
June 30, 2006

	<u>General</u>	<u>Insurance Proceeds</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 702,442	\$ -	\$ 97,291	\$ 799,733
Investments	1,728,339	1,146,790	-	2,875,129
Receivables (net of allowance for uncollectibles)	452,002	-	1,885,942	2,337,944
Due from other funds	347,777	-	(186,671)	161,106
Interest receivable	-	9,431	-	9,431
Inventories	1,079	-	-	1,079
Capital asset held for resale	-	-	1,206,726	1,206,726
Advances to other funds	281,401	-	-	281,401
Intergovernmental receivables - restricted	114,387	-	506,745	621,132
Total assets	<u>\$ 3,627,427</u>	<u>\$ 1,156,221</u>	<u>\$ 3,510,033</u>	<u>\$ 8,293,681</u>

City of Union, South Carolina
Balance Sheet
Governmental Funds
June 30, 2006

	General	Insurance Proceeds	Other Governmental Funds	Total Governmental Funds
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 235,773	\$ -	\$ 44,129	\$ 279,902
Advances from other funds	-	-	569,453	569,453
Deferred revenue	25,361	-	-	25,361
Unearned revenue	167,576	-	-	167,576
Total liabilities	428,710	-	613,582	1,042,292
Fund Balances:				
Reserved for:				
Community assistance	-	-	21,313	21,313
Tax increment district debt service and improvements	-	-	63,289	63,289
Public safety	-	-	17,501	17,501
Victims rights assistance	-	-	39,592	39,592
Long term notes receivable	-	-	1,885,942	1,885,942
Recreation and capital improvements	-	-	21,497	21,497
Inventories	1,079	-	-	1,079
Unreserved, reported in:				
General fund	3,197,637	-	-	3,197,637
Special revenue funds	-	1,156,221	847,317	2,003,538
Total fund balances	3,198,716	1,156,221	2,896,451	7,251,388
Total liabilities and fund balances	\$ 3,627,426	\$ 1,156,221	\$ 3,510,033	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

3,360,468

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.

25,361

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

(435,510)

Net assets of governmental activities

\$ 10,201,707

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

City of Union, South Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006

	<u>General</u>	<u>Insurance Proceeds</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Property Taxes and Penalties	\$ 968,123	\$ -	\$ 92,592	\$ 1,060,715
Payment in Lieu of Taxes	1,692,718	-	-	1,692,718
Licenses, Permits and Fees	1,065,245	-	-	1,065,245
Fines and Forfeitures	96,729	-	-	96,729
Intergovernmental Revenues	653,029	-	916,288	1,569,317
State Collected Revenues	467,093	-	-	467,093
Investment Earnings	96,974	59,799	4,764	161,537
Miscellaneous Revenues	42,587	-	56,054	98,641
Total Revenues	<u>5,082,498</u>	<u>59,799</u>	<u>1,069,698</u>	<u>6,211,995</u>
EXPENDITURES				
Current				
General Government	1,025,232	1,000,012	112,655	2,137,899
Taxes and Licenses	111,071	-	-	111,071
Facilities Maintenance	142,979	-	-	142,979
Public Safety	2,469,733	-	760,398	3,230,131
Public Service	359,748	-	-	359,748
Building and Zoning	207,354	-	-	207,354
Capital Outlay				
General Government	-	-	48,489	48,489
Facilities maintenance	125,523	-	-	125,523
Public Safety	303,956	-	73,569	377,525
Public Service	-	-	33,915	33,915
Debt Service				
General Government	-	-	49,358	49,358
Public Safety	24,709	-	-	24,709
Total Expenditures	<u>4,770,305</u>	<u>1,000,012</u>	<u>1,078,384</u>	<u>6,848,701</u>
Excess Revenue Over (Under) Expenditures	<u>312,193</u>	<u>(940,213)</u>	<u>(8,686)</u>	<u>(636,706)</u>
OTHER FINANCING SOURCES & USES				
Contributed Capital	55,000	-	-	55,000
Lease-purchase Proceeds	211,635	-	-	211,635
Transfers				
Transfer - Solid Waste Mgmt Fund	(130,000)	-	-	(130,000)
Transfer - Economic Development	(71,280)	-	71,280	-
Transfer - Public Safety Grants	(3,286)	-	3,286	-
Transfer - Opportunity Grant	(105,000)	-	105,000	-
Total Other Financing Sources And Uses	<u>(42,931)</u>	<u>-</u>	<u>179,566</u>	<u>136,635</u>
Net Change In Fund Balances	269,262	(940,213)	170,880	(500,071)
FUND BALANCES - BEGINNING OF YEAR	<u>2,929,454</u>	<u>2,096,434</u>	<u>2,725,571</u>	<u>7,751,459</u>
FUND BALANCES - END OF YEAR	<u>\$ 3,198,716</u>	<u>\$ 1,156,221</u>	<u>\$ 2,896,451</u>	<u>\$ 7,251,388</u>

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

City of Union, South Carolina
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds To the Statement of Activities
For the Year Ended June 30, 2006

Amounts reported for governmental activities in the statement of activities (previous page) are different because:

Net change in fund balances - total governmental funds (previous page) \$ (500,072)

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. 300,308

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (468)

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt. (154,449)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (1,541)

Change in net assets of governmental activities - per the Statement of Activities \$ (356,222)

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

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City of Union, South Carolina
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes and penalties	\$ 972,000	\$ 972,000	\$ 968,123	\$ (3,877)
Payment in lieu of taxes	1,552,000	1,552,000	1,692,718	140,718
Licenses, permits and fees	906,500	906,500	1,065,245	158,745
Fines and forfeitures	110,000	110,000	96,729	(13,271)
Intergovernmental revenues	621,700	621,700	653,029	31,329
State collected revenues	443,060	443,060	467,093	24,033
Investment Earnings	30,000	30,000	96,974	66,974
Miscellaneous revenues	5,000	5,000	42,587	37,587
Total Revenues	<u>4,640,260</u>	<u>4,640,260</u>	<u>5,082,498</u>	<u>442,238</u>
EXPENDITURES				
Current:				
General government	1,084,880	1,084,880	1,025,232	59,648
Taxes and licenses	115,250	115,250	111,071	4,179
Facilities maintenance	108,600	127,200	142,979	(15,779)
Public safety	2,550,330	2,550,330	2,469,733	80,597
Public service	503,050	416,650	359,748	56,902
Building and zoning	216,960	216,960	207,354	9,606
Capital Outlay:				
Facilities maintenance	10,000	132,800	125,523	7,277
Public safety	97,500	309,135	303,956	5,179
Debt service:				
Public safety	58,000	58,000	24,709	33,291
Total expenditures	<u>4,744,570</u>	<u>5,011,205</u>	<u>4,770,305</u>	<u>240,900</u>
Excess of revenue over expenditures	<u>(104,310)</u>	<u>(370,945)</u>	<u>312,193</u>	<u>683,138</u>
OTHER FINANCING SOURCES (USES)				
Lease-purchase proceeds	-	211,635	211,635	-
Contributed capital	-	55,000	55,000	-
Transfers out	(201,280)	(309,566)	(309,566)	-
Total other financing sources and uses	<u>(201,280)</u>	<u>(42,931)</u>	<u>(42,931)</u>	<u>-</u>
Net change in fund balances	(305,590)	(413,876)	269,262	683,138
Fund balances - beginning	<u>2,929,454</u>	<u>2,929,454</u>	<u>2,929,454</u>	<u>-</u>
Fund balances - ending	<u>\$ 2,623,864</u>	<u>\$ 2,515,578</u>	<u>\$ 3,198,716</u>	<u>\$ 683,138</u>

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

City of Union, South Carolina
Statement of Net Assets
Proprietary Funds
June 30, 2006

	Combined Utility	Solid Waste Management	Total Proprietary Funds
ASSETS			
Currents assets:			
Cash and cash equivalents	\$ 7,000	\$ 307,559	\$ 314,559
Investments	12,149,321	-	12,149,321
Interest receivable	4,194	-	4,194
Receivables (net of allowance for uncollectibles)	2,808,667	807	2,809,474
Due from other funds	(289,266)	128,161	(161,105)
Inventories	666,109	-	666,109
Total current assets	15,346,025	436,527	15,782,552
Noncurrent assets:			
Advances to other funds	569,453	-	569,453
Deposits	35	-	35
Deferred charges	794,072	-	794,072
Restricted cash, cash equivalents, and investments:			
Investments	728,689	-	728,689
Total restricted assets	728,689	-	728,689
Capital assets:			
Land	317,206	770	317,976
Buildings	1,528,531	457,490	1,986,021
Improvements other buildings	81,593,645	-	81,593,645
Machinery and equipment	3,937,191	962,683	4,899,874
Less accumulated depreciation	(33,271,493)	(559,523)	(33,831,016)
Total capital assets (net of accumulate depreciation)	54,105,080	861,420	54,966,500
Total noncurrent assets	56,197,329	861,420	57,058,749
Total assets	71,543,354	1,297,947	72,841,301

City of Union, South Carolina
Statement of Net Assets
Proprietary Funds
June 30, 2006

	<u>Combined Utility</u>	<u>Solid Waste Management</u>	<u>Total Proprietary Funds</u>
LIABILITIES			
Current liabilities:			
Bank overdraft	354,767	-	354,767
Accounts payable	2,248,946	25,042	2,273,988
Retainage payable	42,721	-	42,721
Total current liabilities	<u>2,646,434</u>	<u>25,042</u>	<u>2,671,476</u>
Current liabilities payable from restricted assets	-	-	-
Revenue bonds payable	678,625	-	678,625
Lease-purchase payable	-	35,694	35,694
Accrued interest payable	41,236	-	41,236
Total current liabilities payable from restricted assets	<u>719,861</u>	<u>35,694</u>	<u>755,555</u>
Noncurrent liabilities:			
Advances from other funds	-	281,401	281,401
Revenue bonds payable	11,695,076	-	11,695,076
Lease-purchase payable	-	146,053	146,053
Total noncurrent liabilities	<u>11,695,076</u>	<u>427,454</u>	<u>12,122,530</u>
Total liabilities	<u>15,061,371</u>	<u>488,190</u>	<u>15,549,561</u>
NET ASSETS			
Investment in capital assets, net of related debt	41,731,379	398,272	42,129,651
Restricted for debt service	911,242	-	911,242
Unrestricted	13,839,363	411,485	14,250,848
Total net assets	<u>\$ 56,481,984</u>	<u>\$ 809,757</u>	<u>\$ 57,291,741</u>

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

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City of Union, South Carolina
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2006

	Enterprise Funds		Total
	Business-type Activities		
	Combined Utility	Solid Waste Management	
Operating revenues:			
Sales	\$ 36,607,264	\$ -	\$ 36,607,264
Sewer charges	1,736,476	-	1,736,476
Collection fees	-	739,698	739,698
Other revenues	(12,801)	(3,270)	(16,071)
Total operating revenues	<u>38,330,939</u>	<u>736,428</u>	<u>39,067,367</u>
Operating expenses:			
Purchased power and natural gas	27,896,259	-	27,896,259
System operations	7,711,948	725,272	8,437,220
Depreciation and amortization	1,805,070	72,176	1,877,246
Total operating expenses	<u>37,413,277</u>	<u>797,448</u>	<u>38,210,725</u>
Operating income	<u>917,662</u>	<u>(61,020)</u>	<u>856,642</u>
Nonoperating revenues (expenses):			
Investment earnings	589,440	5,649	595,089
Other	638,302	-	638,302
Interest expense	(536,225)	(19,019)	(555,244)
Total nonoperating revenue (expenses)	<u>691,517</u>	<u>(13,370)</u>	<u>678,147</u>
Income before contributions and transfers	1,609,179	(74,390)	1,534,789
Capital contributions - net	43,668	-	43,668
Transfers in	-	130,000	130,000
Change in net assets	1,652,847	55,610	1,708,457
Total net assets - beginning	<u>54,829,137</u>	<u>754,145</u>	<u>55,583,282</u>
Total net assets - ending	<u>\$ 56,481,984</u>	<u>\$ 809,755</u>	<u>\$ 57,291,739</u>

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

City of Union, South Carolina
Statement of Cash Flows
Enterprise Funds
For the Year Ended June 30, 2006

	<u>Utility</u>	<u>Solid Waste Management</u>	<u>Total</u>
Cash Flows From Operating Activities			
Receipts from customers and users	\$ 38,328,430	\$ 735,621	\$ 39,064,051
Payments for electricity and gas for resale	(27,896,259)	-	(27,896,259)
Payments to suppliers	(5,596,989)	(308,578)	(5,905,567)
Payments to employees and related benefit providers	(3,159,280)	(379,001)	(3,538,281)
Net cash provided (used) by operating activities	<u>1,675,902</u>	<u>48,042</u>	<u>1,723,944</u>
Cash Flows From Noncapital Financing Activities			
Transfer from other funds	-	130,000	130,000
Net cash provided [used] by noncapital financing activities	<u>-</u>	<u>130,000</u>	<u>130,000</u>
Cash Flows From Capital and Related Financing Activities			
Proceeds from lease-purchase	-	188,365	188,365
Capital contributions	43,668	-	43,668
Construction and purchase of fixed assets	(2,783,263)	(210,418)	(2,993,681)
Principal paid on capital debt	(640,073)	(6,618)	(646,691)
Interest paid on capital debt	(536,225)	(19,019)	(555,244)
Nonoperating income	638,302	-	638,302
Net cash provided (used) by capital and related financing activities	<u>(3,277,591)</u>	<u>(47,690)</u>	<u>(3,325,281)</u>
Cash Flows From Investing Activities			
Sale of investments - net of purchases	1,012,249	-	1,012,249
Interest income received	589,440	5,649	595,089
Net cash provided (used) by investing activities	<u>1,601,689</u>	<u>5,649</u>	<u>1,607,338</u>
Net increase (decrease) in cash and cash equivalents	-	136,001	136,001
Cash - beginning of year	<u>7,000</u>	<u>171,558</u>	<u>178,558</u>
Cash - end of year	<u>\$ 7,000</u>	<u>\$ 307,559</u>	<u>\$ 314,559</u>

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

City of Union, South Carolina
Statement of Cash Flows
Enterprise Funds
For the Year Ended June 30, 2006

	<u>Utility</u>	<u>Solid Waste Management</u>	<u>Total</u>
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating income (loss)	\$ 917,662	\$ (61,020)	\$ 856,642
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation and amortization expense	1,805,070	72,176	1,877,246
(Increase) decrease in accounts receivable	(2,509)	(807)	(3,316)
(Increase) decrease in due to/from other funds	(176,013)	37,723	(138,290)
(Increase) decrease in advances to other funds	40,769	-	40,769
(Increase) decrease in accrued interest receivable	(1,069)	-	(1,069)
(Increase) decrease in inventories	(58,111)	-	(58,111)
Increase (decrease) in accounts payable and accrued expenses	(847,900)	9,496	(838,404)
Increase (decrease) in accrued interest payable	(1,997)	-	(1,997)
Increase (decrease) in advances from other funds		(9,526)	
Total adjustments	<u>758,240</u>	<u>109,062</u>	<u>867,302</u>
Net cash provided (used) by operating activities	<u>\$ 1,675,902</u>	<u>\$ 48,042</u>	<u>\$ 1,723,944</u>

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

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CITY OF UNION, SOUTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

I. Description of Reporting Entity and Summary of Significant Accounting Policies

The City of Union, South Carolina (the "City") is a municipal corporation incorporated in 1837. The City is located in the north central area of South Carolina and serves a population of approximately 8,800. The City is governed by an elected mayor and six-member council. The City operates under the mayor-council form of government. The general purpose financial statements of the City conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

A. Reporting Entity

The accompanying general purpose financial statements include all City funds, and governmental functions. The primary criterion for determining inclusion or exclusion of a legally separate entity is financial accountability, which is presumed to exist if the City both appoints a voting majority of the entity's governing body, and either 1) the City is able to impose its will on the entity or, 2) there is a potential for the entity to provide specific financial benefits to, or impose specific financial burdens on the City. If either or both of the foregoing conditions are not met, the entity could still be considered a component unit if it is fiscally dependent on the City. In order to be considered fiscally independent, an entity must have the authority to do all three of the following:

- A) Determine its budget without the City having the authority to approve or modify that budget.
- B) Levy taxes or set rates or charges without approval by the City.
- C) Issue bonded debt without approval by the City.

Finally, an entity could be a component unit even if it met all the conditions described above if excluding it would cause the City's financial statements to be misleading or incomplete.

Discretely presented component units:

At year end, the City had no component units.

B. Government-wide and fund financial statements

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. Both the government-wide and fund financial statements categorize activities as either governmental activities or business-type activities.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information about the reporting government as a whole. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who

purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Statement 34 is very specific in its definition and provides specifics to allow for determination of "major funds". In brief, major funds are funds whose revenues, expenditures/expenses, assets or liabilities (excluding extraordinary items) are at least 10 percent of corresponding totals for all governmental or enterprise funds or at least 5 percent of the aggregate amount for all governmental and enterprise funds for the same item. The general fund is always a major fund. The electric, water, sewer and natural gas fund is also presented as a major fund based upon the definition. The Statement allows presentation of other funds that are of particular importance to also be reported as major funds. We elected to include the solid waste management fund and the Insurance Proceeds Fund as major funds.

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. In the accompanying general purpose financial statements, the various funds of the City are grouped into three broad fund categories as follows:

Fund Financial Statements

The underlying accounting system of the City is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements for the primary government's governmental and proprietary funds are presented after the government-wide financial statements. These statements display information about major funds individually and nonmajor funds in the aggregate for governmental and enterprise funds.

Governmental funds

Governmental funds are used to account for all or most of a government's general activities. The City maintains General, Special Revenue and Capital Projects funds.

General fund - The General fund is the City's general operating fund and is used to account for all financial transactions except those required to be accounted for in another fund. Principal sources of revenue are property taxes, licenses and permits, and intergovernmental revenues. Primary expenditures are for general government, public safety, public works, and building zoning.

Special Revenue fund - The Special Revenue fund is used to account for the proceeds from specific revenue sources (other than funding for major capital projects) that are legally restricted to expenditures for specified purposes. The primary revenue source is from federal grants.

Capital Projects fund - The Capital Projects fund accounts for financial resources, including bond proceeds and intergovernmental grants, used for the acquisition, construction or improvement of major general government facilities.

Proprietary fund - Enterprise fund

Proprietary funds account for activities similar to those found in the private sector. The Financial Accounting Standards Board (FASB) and its predecessor organizations have issued accounting and reporting standards for activities in the private sector. The City has elected not to apply the standards issued by those organizations after November 30, 1989 to its Proprietary funds. The City has, however, applied all applicable pronouncements issued by the Government Accounting Standards Board (GASB) to these funds. Government-wide financial statements are prepared using both GASB Pronouncements as well as FASB Pronouncements issued through November 30, 1989.

Proprietary funds are used to account for activities where the determination of net income or loss is necessary or useful to sound financial administration. An enterprise fund is used to account for operations which provide goods or services and recover costs through user charges in a manner similar to private business enterprises. The City maintains one Enterprise fund to account for electric, water, sewer, and natural gas utilities services and another Enterprise fund to account for solid waste management services provided to customers within the City and the surrounding areas. Services are supplied to customers under a rate structure designed to produce revenues sufficient to recover operating expenses, including principal and interest on Enterprise fund debt.

C. Measurement focus, basis of accounting, and financial statement presentation

Government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statements. Basis of accounting refers to when revenues and expenditures or expenses and the related assets and liabilities are recognized in the accounts and reported in the general purpose financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a *current financial resources measurement focus*. With this measurement focus, only current assets and current liabilities generally are included in the combined balance sheet. The reported fund balance (net current assets) is considered to be a measure of "available spending resources." Operating statements of these funds present increases and decreases in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spending resources" during a period. A sixty day period is used to define availability for the purpose of revenue recognition. All Proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and liabilities associated with the operation of these funds are included in the combined balance sheet. Fund equity is segregated into contributed capital and retained earnings components. Proprietary fund-type operating statements present increases and decreases in total net assets.

Governmental fund revenues and expenditures are recognized on the *modified accrual basis*. Revenue recognition is subject to the *measurable* and *availability* criteria for the governmental funds in the fund financial statements. *Exchange transactions* are recognized as revenues in the period in which they are earned (i.e. the related goods or services are provided). *Locally imposed derived tax revenues* are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. *Imposed non-exchange* transactions are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. *Government-mandated* and *voluntary non-exchange transactions* are recognized as revenues when all applicable eligibility requirements have been met. The revenues susceptible to accrual include property taxes, franchise fees, licenses, interest revenues and charges for services. Fines and permits are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recognized when the fund liability is incurred, except principal and interest on General Long-Term Obligations which are recognized when due or when funds have been made available for payment.

The accrual basis of accounting is utilized by the Proprietary fund. Under this method, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payment-in-lieu of taxes and other charges between the government's proprietary fund and various other functions of the government. Elimination of these charges would distort the direct cost and program revenue reported for the various functions concerned.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*. Likewise, internally dedicated resources are reported as general revenues rather than as program revenues.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

The government's cash and cash equivalents are considered to be cash on hand and demand deposits for financial statement purposes including the statement of cash flows

2. Receivables and payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds”.

All trade and property tax receivables are shown net of an allowance for uncollectibles. The respective allowances for uncollectibles are based on management’s overall estimate of collectibility using historical collection experience and subsequent collection information.

The City Code provides for the taxation of all real and personal property located within the City’s corporate limits on the first day of January. Motor vehicle taxes are billed and collected by Union County and remitted to the City monthly during the year. Other personal and real property taxes are levied by the City in October of each year and become due and payable immediately upon receipt by the taxpayer. Real property taxes are delinquent after January 15 with penalties assessed of 10% if paid after January 15, 12% if paid after January 31, and 15% if paid after February 28. Assessed property is subject to lien one year from the levy date if taxes remain unpaid. The property tax rate approved by ordinance for calendar year 2006 is 74.3 mills.

Utility sales revenues are recognized at the time the services are provided. Substantially all customers with balances over 30 days past due are disconnected and considered inactive. Periodically, inactive accounts are reviewed to consider bad debt status. Bad debts are removed from active accounts receivable and expensed; however customer history is retained for future reference. Bad debts net of recoveries for the year ended June 30, 2006 amounted to \$123,050.

Special Revenue fund

Receivables for reimbursements under grants are recognized in the Special Revenue fund when the related reimbursable expenditure is incurred.

3. Inventories and prepaid items

Inventories of the General and Enterprise funds consist of supplies held for consumption and are recorded as expenditures at the time the items are consumed rather than when purchased. All inventories are valued at cost using the first in first out method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted assets

Certain construction bond proceeds, as well as certain resources set aside for their repayment, are classified as restricted assets in the combined balance sheet because their use is limited by applicable debt covenants.

5. Capital assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 for machinery and equipment and \$100,000 for land, buildings and improvements other than buildings (amounts not rounded) and an estimated useful life

in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets' lives are not capitalized

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment are depreciated using the straight line method over the following estimated useful lives:

Buildings	39 years
Infrastructure	10 to 40 years
Electric plant in service	40 years
Water plant in service	40 years
Sewer plant in service	40 years
Natural Gas plant in service	40 years
Vehicles and equipment	5 to 10 years

In the fund financial statements, governmental funds are presented using the current financial resources measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets, therefore, capital assets are not included in the fund financial statements.

6. Compensated absences

Vacation liabilities are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. City employees are permitted to accumulate up to 80 vacation leave days. Vacation benefits are paid when taken, except for any unused portion of vacation leave which is payable to an employee upon termination, retirement, or death. Sick leave benefits are paid when taken.

In the fund financial statements, governmental funds are presented using the current financial resources measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets, therefore, compensated absences are not included in the fund financial statements.

7. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

For long-term liabilities, other than debt, related to governmental fund types, the general fund has typically been used in prior years to liquidate such amounts.

8. Fund equity

Equity accounts represent the difference between the assets and the liabilities of a government or a given fund. Resources received in connection with nonexchange transactions often come with limitations on how they may be used by the recipient. These *purpose restrictions* should be reflected in the equity section of the statement of position. In governmental funds, a *reservation of fund balance* would be appropriate for this purpose. In government-wide and proprietary fund financial statements, such amounts would be reflected as part of *restricted net assets*.

Designations are used to reflect a government's intended use of current available financial resources. The focus on current financial resources is unique to governmental funds. Accordingly, designations should be reported only on the governmental fund balance sheet. There is no equivalent equity designation that may be used for government-wide financial reporting or for proprietary fund and fiduciary fund financial reporting to reflect the intended use of resources.

Government-wide and fund financial statements must be presented using an *all-inclusive format*. That is, the results of the current period's activities are to be reported as an addition to (or a deduction from) equity at the beginning of the period to arrive at the closing equity balance. Thus *changes in net assets* on the government-wide statement of activities is added to (or deducted from) *net assets – beginning of the fiscal year* to arrive at *net assets – end of the fiscal year*.

Net assets are defined as the difference between assets and liabilities in the government-wide statement of net assets.

The government-wide statement of net assets reports all government assets, therefore, a significant portion of the net assets reported there typically reflects a government's investment in capital assets. To draw financial statement users' attention to this important information, GAAP require the amount of net assets invested in capital assets to be reported as a separate category of net assets. *Net assets invested in capital assets, net of related debt* includes all capital assets less accumulated depreciation and outstanding principal of related debt.

Restrictions may be imposed on a portion of a government's net assets by parties outside the government (such as creditors, grantors, contributors). In some cases, such restricted assets are directly associated with particular liabilities (for instance, restricted assets associated with revenue bonds). An amount equal to these restricted assets, less any related liabilities, is reported as *restricted net assets*.

GAAP direct that the difference between total net assets and the two categories discussed above (invested in capital assets, net of related debt and restricted net assets) be reported as *unrestricted net assets*. This amount may be a deficit to the extent that a government has elected to fund certain long-term liabilities (vacation leave, for instance) as they come due rather than when they are incurred.

9. Comparative data/reclassifications

Comparative total data for the prior year has been presented in the financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

10. Expenses/Expenditures

Consistent with the current financial resources measurement focus, the governmental fund statement of activities reports *expenditures* rather than expenses. Expenditures in the fund financial statements are presented by *character* for the governmental funds. The character of an expenditure is based upon the periods it is presumed to benefit. Expenditures that primarily benefit the present period (*current expenditures*) are distinguished from those presumed to benefit both the present and future periods (*debt service expenditures and capital outlay expenditures*). GAAP also provide for a fourth character classification, *intergovernmental expenditures*, for situations where one governmental entity provides resources to another.

Government-wide expenses are reported by *function*. The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. As a result, there are important differences between the expenditures reported on the governmental fund financial statements and those expenses reported on the government-wide financial statements. For example, the governmental funds report capital outlay expenditures, while the government-wide financial statements report depreciation.

The focus in proprietary funds is on *expenses* rather than expenditures. GAAP require that the statement of activities for proprietary funds distinguish *operating* from *nonoperating* expenses. GAAP do not provide an authoritative definition of operating and nonoperating expenses for this purpose, although GAAP indicate that financial statement preparers may wish to consider the authoritative guidance on identifying cash flows from operating activities in arriving at their own definitions.

II. Reconciliation of government-wide and fund financial statements

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets.

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets.

One element of that reconciliation explains that “long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds”. Explanation of this difference totaling \$(435,510) is as follows:

Notes payable	\$ (382,761)
Compensated absences	<u>(52,749)</u>
Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	<u>\$(435,510)</u>

Another element of that reconciliation states “governmental funds report capital outlay as expenditures. In the statement of net assets, the cost of these assets is recorded and that cost is allocated over their estimated useful lives.” Explanation of this difference totaling \$3,360,468 is as follows:

Total capital assets	6,621,258
Accumulated depreciation	<u>(3,260,790)</u>

Net adjustment to increase <i>fund balance – total governmental Funds to arrive at net assets – governmental activities</i>	<u>\$ 3,360,468</u>
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Another element of that reconciliation states “certain assets are not available to pay for current period expenditures and, therefore, are deferred or restricted in the funds.” Explanation of this difference totaling \$ 25,361 is as follows:

Deferred revenue	<u>\$ 25,361</u>
Net adjustment to increase <i>fund balance – total governmental funds to arrive at net assets – governmental activities</i>	<u>\$ 25,361</u>

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The details of this \$300,308 difference are as follows:

Capital outlay	\$ 450,204
Depreciation expense	<u>(149,896)</u>
Net adjustment to decrease <i>net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities</i>	<u>\$ 300,308</u>

Another element of that reconciliation states that “revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. The details of this \$ (468) are as follows:

Deferred property tax revenue – net decrease	<u>\$ (468)</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities</i>	<u>\$ (468)</u>

Another element of that reconciliation states that “the issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities” The details of this \$154,449 are as follows:

Debt issued	\$ (211,635)
Principal payments	<u>\$ 57,186</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ (154,449)</u>

Another element of that reconciliation states that “some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. The details of this \$(1,541) are s follows:

Compensated absences – net decrease	<u>\$ (1,541)</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ (1,541)</u>

C. Reclassifications and Eliminations

Interfund balances must generally be eliminated in the government-wide financial statements, except for net residual amounts due between governmental activities. Any allocations must reduce the expense of the function from which the expenses are being allocated, so that expenses are reported only once – in the function in which they are allocated.

III. Stewardship, compliance and accountability

A. Budgetary information

In accordance with the State of South Carolina General Statutes, the City prepares an annual balanced budget ordinance. The City adopts annual budgets for the General fund using the modified accrual basis and for the Enterprise funds using the full accrual basis. Annual budgets for ongoing Special Revenue funds are adopted as needed. For other Special Revenue funds, sufficient budgetary control is achieved through restrictions included in the various grant agreements. An annual operating budget for the Capital Projects fund is not adopted as its revenues and expenditures are adopted on a project basis. Appropriations for the General and Enterprise funds lapse at the end of the budget year.

In February, the budget process begins with a special comprehensive work session in which the Finance Department and Mayor’s Office meet with all department heads to discuss current and future trends, needs and goals of the City.

All department heads submit comprehensive lists of programs, projects and initiatives to be considered in the upcoming budget and meet with Finance department staff and the Mayor’s Office individually. During March and April formal budget workshops are held. The Council holds public hearings and a final budget must be prepared and adopted no later than June 30.

Budgets are prepared at the fund, function and department level. Budgets are adopted at the fund level and are amended as necessary during the fiscal year in one of two ways. First, the Mayor, as delegated by City Council, may make line item transfers within individual fund budgets with subsequent monthly notice to City Council. Such transfers can neither increase nor decrease the overall budget at the fund level. Secondly, the budget may be increased or decreased at the fund level as changing circumstances dictate, subject to City Council approval. During the year there were no supplemental appropriations adopted by the City Council.

B. Excess of expenditures over revenues

For the year ended June 30, 2006, expenditures exceeded revenues in the following funds:

Community Change Special Revenue Fund	\$ 2,974
Public Safety Grants Special Revenue Fund	3,286
Economic Development Special Revenue Fund	24,613
Capital Projects Fund	32,919
Insurance Proceeds Fund	940,213
Solid Waste Management Fund	74,390

C. Deficit fund equity

No funds had a deficit fund balance as of June 30, 2006.

IV. Detailed notes on all funds

A. Deposits and investments

At year end, the government’s bank balance was \$1,114,292. The bank balance was covered by federal depository insurance, by collateralized securities held by the pledging financial institution’s trust department or agent but not in the government’s name, and by irrevocable letters of credit issued by Federal Agencies in which the City of Union is named as beneficiary . Book value is not materially different from bank balances.

The State of South Carolina General Statutes permit the City to invest in the following types of instruments:

1. Obligations of the United States, its agencies and instrumentalities.
2. Obligations of the State of South Carolina or any of its political subdivisions.
3. Savings and Loan Associations to the extent that the same are insured by an agency of the federal government.
4. Certificates of deposit and repurchase agreements provided the collateral is of the types described in 1 and 2 above and has a market value in excess of the certificate of deposit or repurchase agreement plus accrued interest, and is held by a third party as escrow agent or custodian.
5. Repurchase agreements when collateralized by securities of the type described in 1 and 2 above and held by a third party as escrow agent or custodian, of a market value not less than the amount of the repurchase agreement so collateralized, including interest.
6. No load open-end or closed-end management type investment companies or investment trusts registered under the Investment Company Act of 1940, as amended, where the investment is made by a bank or trust company or savings and loan association or other financial institution when acting as trustee or agent for a bond or other debt issue of the City if the particular portfolio of the investment company or investment trust in which the investment is made (i) is limited to obligations described in items 1, 2 and 5 above and (ii) has among its objectives the attempt to maintain a constant net asset value of one dollar a share and to that end, values its assets by the amortized cost method.

Investments are carried at fair value at June 30, 2006 as follows:

	<u>Fair Value</u>	<u>Weighted Maturity</u>
US Government Securities	\$ 728,689	Less than one year

US Agency Securities	635	Less than one year
SC Local Government Investment Pool	222,372	Less than one year
Money Market and Certificate of Deposit	<u>14,801,443</u>	Less than one year
Total	<u>\$15,753,139</u>	

The South Carolina Local Government Investment Pool is run by the State Treasurer's Office and can invest only in the same type of instruments allowed the City.

Restricted investments, as reported in the government-wide statements, reflects government securities in the amount of \$728,689 held in debt service accounts. The amount included under Net Assets - restricted for debt service reflects amounts required by bond ordinance to be set aside as cushion funds.

Interest rate risk – In accordance with its investment policy, the government manages its exposure to declines in fair values by limiting the weighted average maturity of its investment activity to less than twelve months.

Credit risk – The government does not invest in commercial paper or corporate bonds in order to limit its exposure to credit risk.

Concentration of credit risk and custodial risk – The government's investment policy does not allow for an investment in any one issuer that is in excess of amounts insured by FDIC, guaranteed by the US Government or pledged by collateralized securities.

B. Receivables

Receivables at June 30, 2006, including the applicable allowances for uncollectible accounts, are as follows for the fund and government-wide financial statements, respectively:

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Enterprise</u>	<u>Total</u>
Receivables:					
Property taxes and assessments	\$ 52,680	\$	\$	\$	\$ 52,680
Utility accounts				2,682,872	2,682,872
Notes Receivable		1,885,942			1,885,942
Other	<u>399,322</u>	<u> </u>	<u> </u>	<u>126,602</u>	<u>525,924</u>
Net total receivables per fund financials	<u>452,002</u>	<u>1,885,942</u>	<u> </u>	<u>2,809,474</u>	<u>5,147,418</u>
Reconciliation to government-wide financials:					
Adjustments to reclassify interest receivable	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net total receivables per government-wide financials	<u>\$ 452,002</u>	<u>\$1,885,942</u>	<u>\$ </u>	<u>\$2,809,474</u>	<u>\$5,147,418</u>

Certain receivables are not accrued as revenues in the governmental funds because they are not considered to be susceptible to accrual and thus are recorded as deferred revenues.

C. Capital assets

Capital asset activity for the year ended June 30, 2006 was as follows:

Primary Government

Governmental activities:	June 30, <u>2005</u>	<u>Additions</u>	Retire- <u>ments</u>	June 30, <u>2006</u>
Capital assets not being depreciated:				
Land	\$ 1,172,961	\$ <u> </u>	\$ <u> </u>	\$ 1,172,961
Capital assets being depreciated – net of accumulated depreciation:				
Infrastructure	1,349,407			1,349,407
Buildings and improvements	1,413,202	122,900		1,536,102
Improvements other than buildings	327,451			327,451
Machinery and equipment	<u>1,908,033</u>	<u>327,305</u>	<u> </u>	<u>2,235,338</u>
Total depreciable capital assets	4,998,093	450,205		5,448,298
Less accumulated depreciation:				
Infrastructure	950,365			968,141
Buildings and improvements	360,211			390,933
Improvements other than buildings	155,539			162,088
Machinery and equipment	<u>1,644,779</u>			<u>1,739,628</u>
Total accumulated depreciation	<u>3,110,894</u>			<u>3,260,790</u>
Total depreciable assets – net of accumulated depreciation	<u>1,887,199</u>			<u>2,187,508</u>
Governmental activities capital assets, net	<u>\$ 3,060,160</u>			<u>\$ 3,360,469</u>
	June 30,		Retire- June 30,	

Business-type activities:	<u>2005</u>	<u>Additions</u>	<u>ments</u>	<u>2006</u>
Capital assets not being depreciated:				
Land	<u>\$ 317,976</u>	\$ _____	\$ _____	<u>\$ 317,976</u>
Capital assets being depreciated – net of accumulated depreciation:				
Buildings and improvements	1,986,021			1,986,021
Improvements other than buildings	78,810,382	2,783,263		81,593,645
Machinery and equipment	<u>4,689,456</u>	<u>210,418</u>	_____	<u>4,899,874</u>
Total depreciable capital assets	85,485,859	2,993,681		88,479,540
Less accumulated depreciation:				
Buildings and improvements	660,680			702,568
Improvements other than buildings	27,267,759			28,871,737
Machinery and equipment	<u>4,110,049</u>			<u>4,256,711</u>
Total accumulated depreciation	<u>32,038,488</u>			<u>33,831,016</u>
Total depreciable assets – net of accumulated depreciation	<u>53,447,371</u>			<u>54,648,524</u>
Business-type activities capital assets, net	<u>\$ 53,765,347</u>			<u>\$ 54,966,500</u>

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

Governmental activities:	
General government	\$ 48,042
Building and zoning	-
Public safety	77,099
Public works	<u>24,755</u>
Total depreciation expense – governmental activities	<u>\$ 149,896</u>
Business-type activities	
Electric	\$ 452,533
Water	526,641
Sewer	444,762
Natural gas	381,134
Solid waste	<u>72,176</u>
Total depreciation expense – business-type activities	<u>\$ 1,877,246</u>

Construction in progress is capitalized as each section of the project is completed.

Construction commitments

The City has commitments for certain construction contracts in process at June 30, 2006 which will require the expenditure of resources in future periods. The amount committed by the Enterprise fund is \$398,618. At year end, the government's commitments with contractors are as follows:

<u>Project</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Water and sewer system upgrade	\$ 370,848	\$ 369,418
Gas system upgrade	56,360	29,200

D. Interfund receivables, payables and transfers

The composition of interfund balances as of June 30, 2006, is as follows:

Due to / from other funds:

	<u>Due from (receivable)</u>	<u>Due to (payable)</u>
General fund	\$ 347,777	
Special Revenue fund		(208,167)
Capital Projects fund	21,497	
Solid Waste Management Enterprise fund	128,161	
Utility Enterprise fund	_____	<u>(289,268)</u>
Total	<u>\$ 497,435</u>	<u>\$ (497,435)</u>

Interfund balances must generally be eliminated in the government-wide financial statements, except for net residual amounts due between governmental activities. Any allocations must reduce the expense of the function from which the expenses are being allocated, so that expenses are reported only once – in the function in which they are allocated. The net balance reflected in the government-wide financial statements, therefore, is as follows:

Due to / from other funds:

	<u>Government-wide</u>
General fund	\$347,777
Special Revenue fund	(208,167)
Capital Projects fund	21,497
Solid Waste Management Enterprise Fund	128,161
Utility Enterprise fund	<u>(289,268)</u>
Total	<u>\$ 0</u>

Transfers are used to move unrestricted revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations. Transfer purposes include matching funds for various grant projects, operating transfers, and debt service transfers.

E. Long-term liabilities

Notes Payable

The government acquired notes payable to provide funds for the acquisition and construction of major capital facilities and for the acquisition of equipment.

	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities – year end balances:		
Fire Truck Loan	5.5%	\$ 45,396
Downtown Revitalization Tax Increment Note	5.5%	<u>133,166</u>
Total governmental activities		<u>\$ 178,562</u>

Tax increment financing does not affect the debt limitation of the City.

On February 13, 1995, the City borrowed \$130,000 from Arthur State Bank to buy a fire truck. The loan is due in annual installments of \$12,951 through February of 2010.

On July 29, 1994, the City borrowed \$450,000 from Arthur State Bank to partially fund the downtown Union revitalization project. The loan is due in annual installments of \$49,358 through April of 2009.

Annual debt service requirements to maturity for notes payable are as follows:

Year Ending <u>June 30</u>	<u>Governmental activities</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 52,489	\$ 9,820
2008	55,376	6,933
2009	58,421	3,888
2010	<u>12,276</u>	<u>677</u>
Total	<u>\$ 178,562</u>	<u>\$ 21,318</u>

Lease-purchases Payable

The government entered into lease-purchase agreements for the acquisition of equipment.

	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities – year end balances:		
Fire Truck Lease	3.7%	\$ 204,201
Total governmental activities		<u>\$ 204,201</u>

On October 26, 2005, the City entered into a lease-purchase agreement for \$211,635 to buy a fire truck. The lease-purchase is due in quarterly installments of \$11,758 through February of 2011.

Annual debt service requirements to maturity for lease-purchase payables are as follows:

Year Ending <u>June 30</u>	<u>Governmental activities</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 40,103	\$ 6,928
2008	41,591	5,439
2009	43,135	3,896
2010	44,735	2,296
2011	<u>34,637</u>	<u>636</u>
Total	<u>\$ 204,201</u>	<u>\$ 19,195</u>

	<u>Interest Rates</u>	<u>Amount</u>
Business-type activities – year end balances:		
Garbage Truck Lease	3.7%	<u>\$ 181,747</u>
Total business-type activities		<u>\$ 181,747</u>

On October 26, 2005, the City entered into a lease-purchase agreement for \$188,365 to buy a garbage truck. The lease-purchase is due in quarterly installments of \$10,465 through February of 2011.

Annual debt service requirements to maturity for lease-purchase payables are as follows:

Year Ending <u>June 30</u>	<u>Governmental activities</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 35,694	\$ 6,166
2008	37,018	4,841
2009	38,391	3,468
2010	39,816	2,043
2011	<u>30,828</u>	<u>566</u>
Total	<u>\$ 181,747</u>	<u>\$ 17,084</u>

Revenue bonds

The government also issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at year end are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Enterprise fund capital projects	3.0 – 4.8%	<u>\$12,373,701</u>

Long-term obligations recorded in the Enterprise fund include the following at June 30, 2006:

SRF Tosh Creek Loan	\$1,006,860
SRF Meng Creek Loan	564,954
SIRF Oak Grove Elevated Tank Loan	986,321
SIRF 2000 Loan	1,615,938
Series 2004 Bond Issue	<u>9,060,000</u>
Subtotal	13,234,073
Less: Unamortized loss on refunding - Series 1994	<u>(860,372)</u>
Subtotal	12,373,701
Less: Current portion	<u>(678,625)</u>
Non-current portion	<u>\$ 11,695,076</u>

On December 1, 1993, the City issued \$4,330,000 Combined Utility System Revenue Bonds (Series 1993) to finance a portion of the cost of repairs, extensions, enlargements and improvements to the City's combined public utility system. The bonds were redeemed on December 28, 2004 by the Series 2004 bond issue.

On February 1, 1994, the City issued \$7,030,000 Combined Utility System Refunding Bonds (Series 1994) to refund a portion of the Series 1991 Bonds. The bonds were redeemed on December 28, 2004 by the Series 2004 bond issue.

In 1997, the City borrowed \$882,772 from the State Revolving Loan Fund for the Meng Creek Wastewater Treatment Plant Outfall and Parallel Sewer Project. The loan is due in quarterly installments of \$16,436 including interest at 4.25% through January 2017.

In 1998, the City borrowed \$1,545,040 from the State Revolving Loan Fund for the Tosh Creek Wastewater Treatment Plant Outfall Project. The loan is due in quarterly installments of \$28,767 including interest at 4.25% through January 2017.

In 1998, the City borrowed \$1,156,261 from the SC Infrastructure Facilities Authority for the Oak Grove Elevated Tank and Water Plant Engine Generator Project. The loan is due in quarterly installments of \$18,127 including interest at 4.75% through January 2028.

On June 7, 2000, the City borrowed \$2,012,467 from the SC Infrastructure Facilities Authority for water and sewer system improvements. The loan is due in quarterly installments of \$33,544 including interest at 3.00% through January 2021.

At June 30, 2003, outstanding Combined Utility System Revenue Bonds Series 1991 in the amount of \$6,015,000 were considered to be defeased.

On December 28, 2004, the City issued \$9,480,000 Combined Public Utility System Refunding Revenue Bonds (Series 2004) to refund the remaining balance in the Series 1993 Bonds and the Series 1994 Bonds. The Bonds are due in annual installments of \$420,000 to \$765,000 plus interest at 4.00% through December 2020.

The net revenues of the utility system are pledged for the repayment of Combined Public Utility Revenue Bond principal and interest. The various bond indentures contain significant limitations and restrictions on annual debt service requirements, maintenance of and flow of moneys through various restricted assets, minimum amounts to be maintained in various sinking funds, and minimum revenue bond coverage. The City is in compliance with all such significant financial limitations and restrictions.

On February 1, 1994, the City issued \$7,030,000 Combined Public Utility System Refunding Bonds Series 1994. The bonds were issued to refund a portion of the Series 1991 Bonds. The Series 1994 Bonds were subsequently refunded by the Series 2004 Bonds. The Series 2004 Bonds are reported net of a \$1,069,845 loss on refunding which is being amortized over the remaining life of the Series 2004 Bonds. The loss on refunding is the difference between the reacquisition price and the net carrying amount of the old debt. The bond issues have the same remaining life. The advance refunding was undertaken to reduce the overall debt service over the remaining life of the bonds resulting in an economic gain.

Advances to/from other funds are not expected to be repaid within the next year.

Annual debt service requirements to maturity for enterprise fund revenue bonds are as follows:

Year Ending <u>June 30</u>	<u>Business type activities</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$678,625	\$ 512,271
2008	707,519	484,977
2009	736,770	456,525
2010	761,393	427,002
2011	786,403	396,493
2012	826,815	364,680
2013	857,646	331,448
2014	898,916	296,779
2015	935,641	260,555
2016	967,837	222,958
2017	989,093	183,969
2018	864,311	146,974
2019	905,087	112,498
2120	941,076	76,510
2021	947,287	39,698
2022	53,035	19,473
2023	55,599	16,909
2024	58,288	14,220
2025	61,106	11,402
2026	64,061	8,447
2027	67,158	5,350
2028	70,407	2,103
Subtotal	<u>\$13,234,073</u>	<u>\$4,391,241</u>
Less: Unamortized loss on refunding		<u>(860,372)</u>
Net balance reported on financial statements		<u>\$12,373,701</u>

Changes in long-term liabilities

Long-term liability activity for the year ended June 30, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Lease-purchase payable	\$ 0	\$ 211,635	\$ 7,434	\$ 204,201	\$ 40,103
Accrued compensated absences	51,208	1,541	0	52,749	52,749
Notes payable	<u>228,313</u>	<u>0</u>	<u>49,753</u>	<u>178,560</u>	<u>52,489</u>
Total	<u>\$ 279,521</u>	<u>\$ 213,176</u>	<u>\$ 57,187</u>	<u>\$ 435,510</u>	<u>\$ 145,341</u>

Business-type activities:

Lease-purchase:	\$	0	\$ 188,365	\$ 6,618	\$ 181,747	\$ 35,694
Accrued compensated absences	77,303	11,554	0	88,857	88,857	
Bonds payable:	<u>12,966,376</u>	<u>0</u>	<u>592,675</u>	<u>12,373,701</u>	<u>678,625</u>	
Total	<u>\$ 13,043,679</u>	<u>\$ 199,919</u>	<u>\$ 599,293</u>	<u>\$12,644,305</u>	<u>\$803,176</u>	

F. Restricted assets and reserves

Reserved fund balances represent that portion of fund equity not appropriate for expenditure or legally segregated for a specific future use. Fund balances are segregated into the following classifications:

Reserved for long term notes receivable - represents the portion of fund balance represented by long term notes receivable that is not available for appropriation or expenditure at the balance sheet date.

Reserved for inventories - represents the portion of fund balance represented by inventory that is not available for appropriation or expenditure at the balance sheet date.

Reserved for debt service - represents the funds in cash accounts being held by agents and required to be used to pay principal and interest on debt when due.

Reserved for capital assets held for resale - represents the portion of fund balance represented by an investment in a capital asset that is being held for resale and is not available for appropriation or expenditure at the balance sheet date.

Reserved for victim rights assistance - represents amounts collected by Municipal Court and held in the Victim Rights Assistance special revenue fund that are required, by state law, to be used for victim counseling and assistance.

Reserved for community assistance – represents amount collected from utility customers and held in the Community Change special revenue fund that is to be used for heating assistance and support of the Salvation Army.

Reserved for tax increment district debt service and improvements – represents amounts collected through property taxes and held in the Downtown Development Project special revenue fund that is required to be used for debt service on the tax increment district’s note payable and for improvements within the tax increment district.

Reserved for public safety – represents grant funds and law enforcement agency funds held in various special revenue funds that are required to be used specifically for public safety programs.

Unreserved - Undesignated - represents resources available for appropriation in following years for any lawful purpose.

The government-wide financial statement designates net assets that are legally restricted as *Restricted Net Assets* versus Reserved. These are net assets of the City that are restricted for a specific purpose. The intent of the “Restricted Net Assets” line item is significantly different from "Reserved Fund Balance", “Restricted Net Assets” use is limited to those items that are legally restricted and should not include items that are “earmarked” for specific purposes.

The restricted cash designation, as found in the modified accrual statements, represents those funds that are in the hands of the trustee per debt covenants for the various bond issues or the proceeds of bond issues restricted for construction. This restriction is now found under "Restricted Net Assets".

V. Other information

A. Risk Management

The City's risk management combines elements of both self-insurance and purchased insurance policies divided into coverage for comprehensive general liability, automobile liability, automobile physical damage, workers' compensation, property, crime insurance, employee health care insurance, and "all risk" insurance including theft, flood and earthquake. The costs of these policies are accounted for in the General fund.

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City carries insurance purchased from two of three pools sponsored by the South Carolina Municipal Association. Workers' compensation is carried by the South Carolina Municipal Insurance Trust Fund. Employee health care is carried by the South Carolina State Employees Blue Cross Plan. The remaining policies are carried by the South Carolina Municipal Insurance and Risk Financing Fund. The City is subject to a \$1,000 deductible requirement on all insured properties, "all risk" and crime policies only, a \$1,000 deductible per claim for workers compensation, as well as a \$10,000 deductible per claim for general liability and auto liability claims.

The workers' compensation policy provides coverage as required by statute. The automobile liability policy covers up to \$1,000,000 per occurrence. The comprehensive general liability policy covers up to \$1,000,000 per claim, and the crime policy covers up to \$200,000 per occurrence. The other policies essentially cover the amount of the loss. In the event a claim is settled for an amount exceeding the limits of these policies, the City would have to pay the excess. Settled claims have not exceeded insurance coverage in any of the past three fiscal years.

B. Related party transactions

The City is not involved in any related party transactions.

C. Subsequent events

The City had no reportable subsequent events at year end.

D. Contingent liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

The City is party to a number of civil lawsuits and other legal actions. In the opinion of the City's attorney and management, the ultimate outcome of these suits is not expected to have a significant impact upon the City's financial position.

E. Jointly governed organization

The City is a member of the Piedmont Municipal Power Agency (PMPA), a governmental corporation organized under the laws of the State of South Carolina. PMPA's generating capacity is committed to a group of municipalities, who have their own electrical utility operations, of which the City is a participant. The City and PMPA have entered into an arrangement that is intended to provide the City with the same benefits and proportionate risks as the other participants relative to alternate wholesale power purchase directly from Duke Power. This arrangement allows the City to participate in the PMPA while retaining the benefits of hydroelectric power generated by Lockhart Power and avoiding the additional expense of direct connection to the Duke Power system. Because of the nature of the agreement, the aggregate commitments over future years cannot be determined.

F. Other post employment benefits

In addition to the pension benefits described in Note 8, the City provides post-retirement health care benefits to all employees that meet certain service requirements. This program is authorized by the City's Personnel Resolution, which is approved by City Council. Expenditures for post-retirement health care benefits are recognized when premiums are paid. During the year ended June 30, 2006, expenditures of \$6,888 were recognized for post-retirement health care for 5 retirees.

G. Employee retirement systems and pension plans

All employees of the City participate in one of two defined benefit pension plans, administered by the State of South Carolina. The South Carolina Retirement System (SCRS) and the Police Officer's Retirement System (PORS), both of which are cost sharing multiple-employer public employee retirement plans. The total payroll for employees covered by the SCRS for the year ended June 30, 2006 was \$3,135,585. The total payroll for employees covered by the PORS for the year ended June 30, 2006 was \$1,375,279. The payroll for retired members for the year ended June 30, 2006 was \$405,836.

The SCRS and PORS offer retirement and disability benefits, cost of living adjustments on an ad-hoc basis, life insurance benefits and survivor benefits. The plans' provisions are established under Title 9 of the SC Code of Laws.

Both employees and the City are required to contribute to the SCRS and PORS at rates established under the authority of Title 9 of the Code of Laws. The City's contributions are actuarially determined, but are communicated to and paid by the City as a percentage of the employees' annual earnings. For year ended June 30, 2006 and the years ended June 30, 2005 and 2004, the City contributed 100% of the required contributions. Contributions by the City for employees covered by the SCRS and PORS were based on 7.55% and 10.3% of the employees' earnings and amounted to \$260,016 for the year ended June 30, 2006 (SCRS) and \$151,696 (PORS), \$232,624 (SCRS) and \$136,606 (PORS) for the year ended June 30, 2005 and \$238,994 (SCRS) and \$143,807 (PORS) for the year ended June 30, 2004. Employee contributions for the SCRS and PORS were based on 6.25% and 6.5% of the employees' earnings and amounted to \$215,244 for the year ended June 30, 2006 (SCRS) and \$95,731 (PORS), \$179,625 (SCRS) and \$82,985 (PORS) for the year ended June 30, 2005 and \$183,179 (SCRS) and \$87,359 (PORS) for the year ended June 30, 2004.

A comprehensive annual financial report containing financial statements and required supplementary information for the SCRS and PORS is issued and publicly available by writing to South Carolina Retirement Systems, P.O. Box 11960, Columbia, SC, 29211-1960.

**COMBINING AND INDIVIDUAL
FUND INFORMATION AND
OTHER SUPPLEMENTAL
INFORMATION**

**City of Union, South Carolina
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006**

**Special
Revenue**

	<u>Tax Increment District</u>	<u>Drug Account</u>	<u>Victim's Rights Advocate Fund</u>	<u>Community Change</u>	<u>Public Safety Grants</u>
ASSETS					
Cash and cash equivalents	\$ 63,289	\$ 6,545	\$ -	\$ 16,501	\$ -
Receivables (net of allowance for uncollectibles)	-	-	-	-	-
Due from other funds	-	-	39,592	4,812	(26,154)
Capital investment held for resale	-	-	-	-	-
Intergovernmental receivables - restricted	-	-	-	-	70,283
Total assets	<u>\$ 63,289</u>	<u>\$ 6,545</u>	<u>\$ 39,592</u>	<u>\$ 21,313</u>	<u>\$ 44,129</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 44,129
Advances from other funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>44,129</u>
Fund Balances:					
Reserved for:					
Community assistance	-	-	-	21,313	-
Tax increment district debt service and improvements	63,289	-	-	-	-
Public safety	-	6,545	-	-	-
Victims rights assistance	-	-	39,592	-	-
Capital asset held for resale	-	-	-	-	-
Recreation and capital improvement	-	-	-	-	-
Economic development	-	-	-	-	-
Long term notes receivable	-	-	-	-	-
Total fund balances	<u>63,289</u>	<u>6,545</u>	<u>39,592</u>	<u>21,313</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 63,289</u>	<u>\$ 6,545</u>	<u>\$ 39,592</u>	<u>\$ 21,313</u>	<u>\$ 44,129</u>

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

<u>C' Funds</u>	<u>PMPA Funds</u>	<u>Economic Development Fund</u>	<u>Firemen's Fund</u>	<u>Opportunity Grants - Phase I & II</u>	<u>Capital Projects Fund</u>	<u>Total Nonmajor Governmental Funds</u>
\$ -	\$ -	\$ -	\$ 10,956	\$ -	\$ -	\$ 97,291
-	-	1,885,942	-	-	-	1,885,942
(4,330)	16,460	88,585	-	(327,132)	21,497	(186,670)
-	-	1,206,726	-	-	-	1,206,726
4,330	-	-	-	432,132	-	506,745
<u>\$ -</u>	<u>\$ 16,460</u>	<u>\$ 3,181,253</u>	<u>\$ 10,956</u>	<u>\$ 105,000</u>	<u>\$ 21,497</u>	<u>\$ 3,510,034</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 44,129
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 569,453</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 569,453</u>
<u>-</u>	<u>-</u>	<u>569,453</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>613,582</u>
-	-	-	-	-	-	21,313
-	-	-	-	-	-	63,289
-	-	-	10,956	-	-	17,501
-	-	-	-	-	-	39,592
-	-	1,206,726	-	-	-	1,206,726
-	-	-	-	-	21,497	21,497
-	16,460	(480,868)	-	105,000	-	(359,408)
-	-	1,885,942	-	-	-	1,885,942
<u>-</u>	<u>16,460</u>	<u>2,611,800</u>	<u>10,956</u>	<u>105,000</u>	<u>21,497</u>	<u>2,896,452</u>
<u>\$ -</u>	<u>\$ 16,460</u>	<u>\$ 3,181,253</u>	<u>\$ 10,956</u>	<u>\$ 105,000</u>	<u>\$ 21,497</u>	<u>\$ 3,510,034</u>

City of Union, South Carolina
Combining Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2006

	Tax Increment District	Drug Account	Victim's Rights Advocate Fund	Community Change	Public Safety Grants
REVENUES					
Property Taxes and Penalties	\$ 92,592	\$ -	\$ -	\$ -	\$ -
Licenses, Permits and Fees	-	-	-	-	-
Intergovernmental Revenues	-	-	18,874	-	70,283
Investment Earnings	320	47	-	-	-
Miscellaneous Revenues	-	-	-	54,533	-
Total Revenues	<u>92,912</u>	<u>47</u>	<u>18,874</u>	<u>54,533</u>	<u>70,283</u>
EXPENDITURES					
Current:					
General Government	-	-	-	57,507	-
Public Safety	-	13	14,156	-	-
Capital Outlay:					
General Government	10,563	-	-	-	-
Public Safety	-	-	-	-	73,569
Public Service	-	-	-	-	-
Debt Service:					
General Government	<u>49,358</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>59,921</u>	<u>13</u>	<u>14,156</u>	<u>57,507</u>	<u>73,569</u>
Excess (deficiency) of revenues over (under) expenditures	<u>32,991</u>	<u>34</u>	<u>4,718</u>	<u>(2,974)</u>	<u>(3,286)</u>
OTHER FINANCING SOURCES & USES					
Transfers in:					
Economic Development	-	-	-	-	-
General Fund	-	-	-	-	-
Public Safety Grants	-	-	-	-	3,286
Opportunity Grant - Phase II	-	-	-	-	-
Transfers out:					
Total other financing sources and (uses)	-	-	-	-	3,286
Net change in fund balances	32,991	34	4,718	(2,974)	-
Fund Balances - beginning	<u>30,299</u>	<u>6,511</u>	<u>34,873</u>	<u>24,286</u>	<u>-</u>
Fund Balances - ending	<u>\$ 63,290</u>	<u>\$ 6,545</u>	<u>\$ 39,591</u>	<u>\$ 21,312</u>	<u>\$ -</u>

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

Special Revenue

C' Funds	PMPA Funds	Economic Development Fund	Firemen's Fund	Opportunity Grants - Phase I & II	Capital Projects Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 92,592
-	-	-	-	-	-	-
33,915	20,000	-	12,742	734,370	26,104	916,288
-	-	4,377	21	-	-	4,765
-	-	1,521	-	-	-	56,054
<u>33,915</u>	<u>20,000</u>	<u>5,898</u>	<u>12,763</u>	<u>734,370</u>	<u>26,104</u>	<u>1,069,699</u>
-	3,540	30,511	-	-	21,097	112,655
-	-	-	11,860	734,370	-	760,399
-	-	-	-	-	37,926	48,489
-	-	-	-	-	-	73,569
33,915	-	-	-	-	-	33,915
-	-	-	-	-	-	49,358
<u>33,915</u>	<u>3,540</u>	<u>30,511</u>	<u>11,860</u>	<u>734,370</u>	<u>59,023</u>	<u>1,078,385</u>
-	16,460	(24,613)	903	-	(32,919)	(8,686)
-	-	71,280	-	-	-	71,280
-	-	-	-	-	-	-
-	-	-	-	-	-	3,286
-	-	-	-	105,000	-	105,000
-	-	71,280	-	105,000	-	179,566
-	16,460	46,667	903	105,000	(32,919)	170,880
-	-	2,565,133	10,054	-	54,415	2,725,571
<u>\$ -</u>	<u>\$ 16,460</u>	<u>\$ 2,611,800</u>	<u>\$ 10,957</u>	<u>\$ 105,000</u>	<u>\$ 21,496</u>	<u>\$ 2,896,451</u>

City of Union, South Carolina
Combining Schedule of Revenues and Expenses by Division
Utility Enterprise Fund
For the Year Ended June 30, 2006

	Enterprise Funds				Total
	Electric Division	Water Division	Sewer Division	Gas Division	
Operating revenues:					
Sales	\$ 13,265,237	\$ 2,779,680	\$ -	\$ 20,562,347	\$ 36,607,264
Sewer charges	-	-	1,736,476	-	1,736,476
Other revenues	(7,947)	11,611	(6,188)	(10,277)	(12,801)
Total operating revenues	<u>13,257,290</u>	<u>2,791,291</u>	<u>1,730,288</u>	<u>20,552,070</u>	<u>38,330,939</u>
Operating expenses:					
Purchased power and natural gas	9,117,704	-	-	18,778,556	27,896,260
System operations	2,096,386	2,025,202	1,733,913	1,856,447	7,711,948
Depreciation	452,533	526,642	444,762	381,134	1,805,071
Total operating expenses	<u>11,666,623</u>	<u>2,551,844</u>	<u>2,178,675</u>	<u>21,016,137</u>	<u>37,413,279</u>
Operating income	<u>1,590,667</u>	<u>239,447</u>	<u>(448,387)</u>	<u>(464,067)</u>	<u>917,660</u>
Nonoperating revenues (expenses):					
Investment earnings	259,354	55,312	33,104	241,671	589,441
Other	164,412	25,444	170,177	278,270	638,303
Interest expense	(59,104)	(181,776)	(166,056)	(129,290)	(536,226)
Total nonoperating revenue (expenses)	<u>364,662</u>	<u>(101,020)</u>	<u>37,225</u>	<u>390,651</u>	<u>691,518</u>
Net income before contributions and transfers	<u>\$ 1,955,329</u>	<u>\$ 138,427</u>	<u>\$ (411,162)</u>	<u>\$ (73,416)</u>	<u>\$ 1,609,178</u>

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

City of Union, South Carolina
Schedule of Revenues, Expenses - Budget and Actual
Electric Division
For the Year Ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating revenues:			
Sales	\$ 12,594,000	\$ 13,265,237	\$ (671,237)
Other revenues	(22,000)	(7,947)	(14,053)
Total operating revenues	<u>12,572,000</u>	<u>13,257,290</u>	<u>(685,290)</u>
Operating expenses:			
Purchased power and natural gas	8,401,000	9,117,704	(716,704)
System operations	2,307,210	2,096,386	210,824
Depreciation and amortization	-	452,533	(452,533)
Total operating expenses	<u>10,708,210</u>	<u>11,666,623</u>	<u>(958,413)</u>
Operating income	<u>1,863,790</u>	<u>1,590,667</u>	<u>273,123</u>
Nonoperating revenues (expenses):			
Investment earnings	85,000	259,354	(174,354)
Other	120,000	164,412	(44,412)
Interest expense	(126,530)	(59,104)	(67,426)
Total nonoperating revenue (expenses)	<u>78,470</u>	<u>364,662</u>	<u>(286,192)</u>
Income before contributions and transfers	<u>\$ 1,942,260</u>	<u>\$ 1,955,329</u>	<u>\$ (13,069)</u>

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

City of Union, South Carolina
Schedule of Revenues, Expenses - Budget and Actual
Water Division
For the Year Ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating revenues:			
Sales	\$ 2,835,100	\$ 2,779,680	\$ 55,420
Other revenues	5,000	11,611	(6,611)
Total operating revenues	<u>2,840,100</u>	<u>2,791,291</u>	<u>48,809</u>
Operating expenses:			
System operations	2,276,820	2,025,202	251,618
Depreciation and amortization	-	526,642	(526,642)
Total operating expenses	<u>2,276,820</u>	<u>2,551,844</u>	<u>(275,024)</u>
Operating income	<u>563,280</u>	<u>239,447</u>	<u>323,833</u>
Nonoperating revenues (expenses):			
Investment earnings	20,000	55,312	(35,312)
Other	21,800	25,444	(3,644)
Interest expense	(378,600)	(181,776)	(196,824)
Total nonoperating revenue (expenses)	<u>(336,800)</u>	<u>(101,020)</u>	<u>(235,780)</u>
Income before contributions and transfers	<u>\$ 226,480</u>	<u>\$ 138,427</u>	<u>\$ 88,053</u>

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

City of Union, South Carolina
Schedule of Revenues, Expenses - Budget and Actual
Sewer Division
For the Year Ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating revenues:			
Sewer charges	\$ 1,796,780	\$ 1,736,476	\$ 60,304
Other revenues	(8,000)	(6,188)	(1,812)
Total operating revenues	<u>1,788,780</u>	<u>1,730,288</u>	<u>58,492</u>
Operating expenses:			
System operations	1,957,490	1,733,913	223,577
Depreciation and amortization	-	444,762	(444,762)
Total operating expenses	<u>1,957,490</u>	<u>2,178,675</u>	<u>(221,185)</u>
Operating income	<u>(168,710)</u>	<u>(448,387)</u>	<u>279,677</u>
Nonoperating revenues (expenses):			
Investment earnings	10,000	33,104	(23,104)
Other	100,000	170,177	(70,177)
Interest expense	(396,380)	(166,056)	(230,324)
Total nonoperating revenue (expenses)	<u>(286,380)</u>	<u>37,225</u>	<u>(323,605)</u>
Income before contributions and transfers	<u>\$ (455,090)</u>	<u>\$ (411,162)</u>	<u>\$ (43,928)</u>

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

City of Union, South Carolina
Schedule of Revenues, Expenses - Budget and Actual
Gas Division
For the Year Ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating revenues:			
Sales	\$ 17,603,950	\$ 20,562,347	\$ (2,958,397)
Other revenues	(20,000)	(10,277)	(9,723)
Total operating revenues	<u>17,583,950</u>	<u>20,552,070</u>	<u>(2,968,120)</u>
Operating expenses:			
Purchased power and natural gas	14,943,110	18,778,556	(3,835,446)
System operations	1,834,250	1,856,447	(22,197)
Depreciation and amortization	-	381,134	(381,134)
Total operating expenses	<u>16,777,360</u>	<u>21,016,137</u>	<u>(4,238,777)</u>
Operating income	<u>806,590</u>	<u>(464,067)</u>	<u>1,270,657</u>
Nonoperating revenues (expenses):			
Investment earnings	80,000	241,671	(161,671)
Other	10,000	278,270	(268,270)
Interest expense	(276,790)	(129,290)	(147,500)
Total nonoperating revenue (expenses)	<u>(186,790)</u>	<u>390,651</u>	<u>(577,441)</u>
Income before contributions and transfers	<u>\$ 619,800</u>	<u>\$ (73,416)</u>	<u>\$ 693,216</u>

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

City of Union, South Carolina
SCHEDULE OF FINES, ASSESSMENTS AND SURCHARGES
COLLECTED AND REMITTED
For the Fiscal Year Ended June 30, 2006

The following is a schedule of fines, assessments and surcharges collected and remitted:

Fines Collected & Retained	\$ 101,238
Assessments/Surcharges/Pullouts Collected	152,378
Assessments Retained For Victims Rights Assistance	10,897
Surcharges Retained For Victims Rights Assistance	7,938
Assessments/Surcharges/Pullouts Remitted	133,543
FY 2006 Expenditures For Victims Rights Assistance	14,156
6-30-2006 Fund Balance Reserved For Victims Rights Assistance	39,592

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

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TERRY R. FANT, P.A.
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UNION, SC 29379-2216
864-427-4736

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the City Council
City of Union, South Carolina

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Union, South Carolina, as of and for the year then ended June 30, 2006, which collectively comprise the City's basic financial statements, and have issued my report thereon dated November 3, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

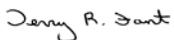
INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing my audit, I considered the City of Union's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. My 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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

COMPLIANCE AND OTHER MATERS

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

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


Terry R. Fant, CPA, PA
November 3, 2006

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