

CITY OF UNION, SOUTH CAROLINA
ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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

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 30, 2011

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 annual financial report of the City of Union (City) for the fiscal year ended June 30, 2011.

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 a licensed certified public accountant, Terry R. Fant, P.A. 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, 2011, 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, 2011, 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.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complement this letter of transmittal and should be read in conjunction with it.

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 approximately 8.0 square miles and serves a population of approximately 8,400, with a total of approximately 29,000 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, 2011, 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 34 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 17.2% at June 30, 2011.

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 2011 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, 2011 varied from approximately 0.10 percent to 4.00 percent. The average yield on overnight federal funds for that period was 0.093percent. The City earned interest revenue of \$175,327 on all investments for the year ended June 30, 2011.

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 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, 2011, expenditures were recognized for post-retirement health care insurance premiums for seven (7) retirees.

Additional information on the City's pension arrangements and post-employment benefits can be found in Notes V.F-G, beginning on page 66, in the financial statements.

Major Initiatives

A multi-purpose center is being planned for downtown Union that will seat approximately 300 people. This center will provide space for the performing arts, business meetings and receptions just to name a few. This center will be a magnet for economic growth in the downtown area.

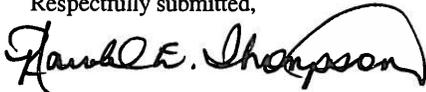
A wastewater pump station and force main will replace an aging wastewater treatment plant. The Meng Creek wastewater facility was constructed in 1973 and is in need of major repairs. This plant is a 1,000,000 MGD plant, but is only processing approximately 300,000 gallons per day. This pump station should be in operation by December, 2011.

A hospitality and accommodation fee was implemented by the City effective September 1, 2010. The expenditures of these funds are governed by Section 6-1-530 of the Code of Laws of South Carolina. The primary use of these funds will be used to promote tourism and recreation in the City of Union.

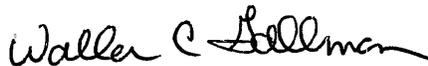
Acknowledgements

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 unfailing support for maintaining the highest standards of professionalism in the management of the City of Union's finances.

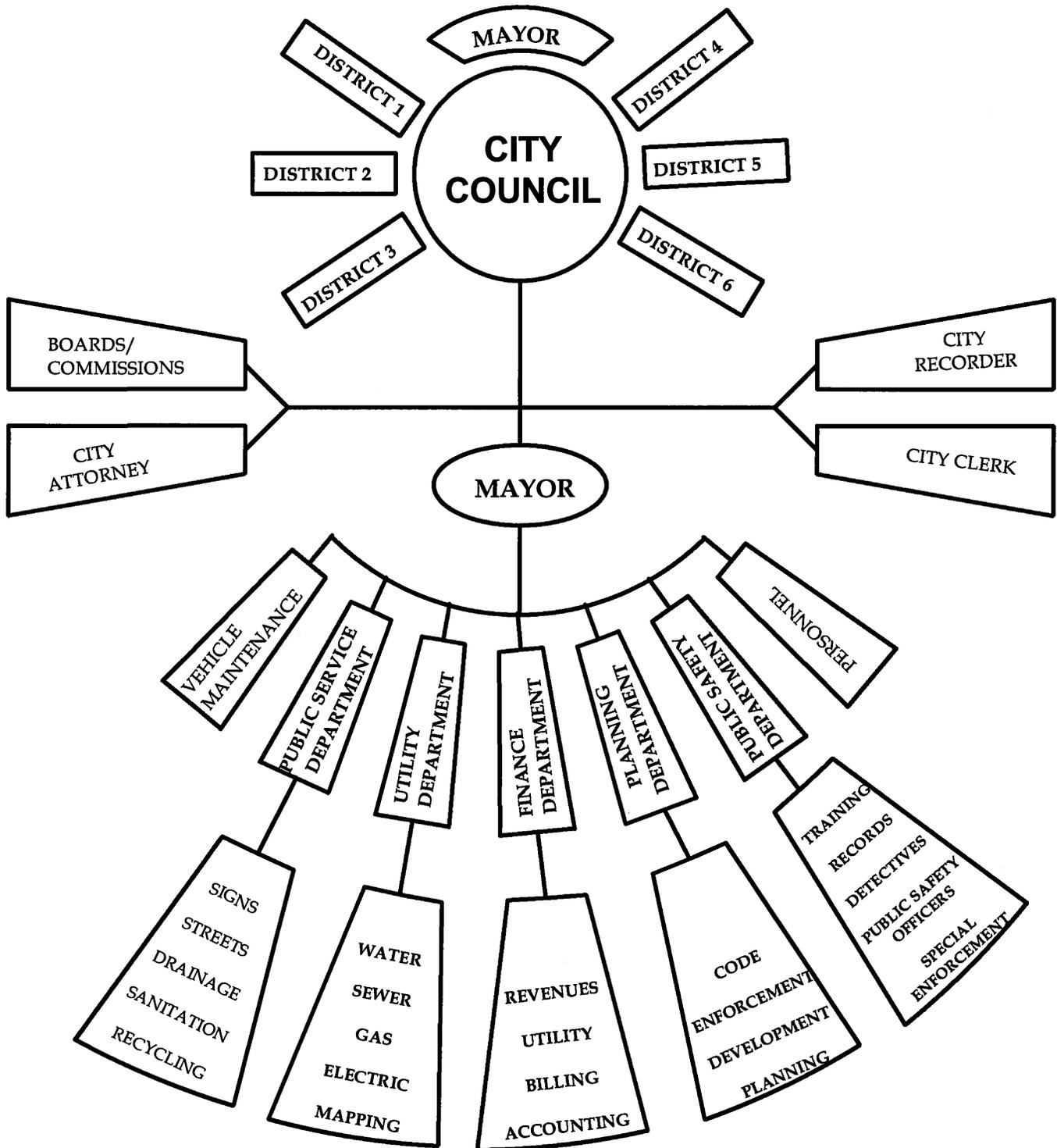
Respectfully submitted,



Harold E. Thompson
Mayor



Walker C. Gallman
Finance Director



**City of Union, South Carolina
LIST OF ELECTED and APPOINTED OFFICIALS
as of November 30, 2011**

ELECTED

Mayor	Harold E. Thompson
Councilmember, District 1	Tommie L. Hill
Councilmember, District 2	Robert Garner
Councilmember, District 3.	Keith Henderson
Councilmember, District 4	Ricky Todd Harris
Councilmember, District 5.	Orangelow M. Ruff
Councilmember, District 6.	Andy Bailey

APPOINTED

City Attorney	William Whitney
City Recorder	Wade Hampton
City Clerk/Personnel Director	Gloria Rogers
Public Service Director	Perry Harmon
Maintenance Director	Mike Petrie
Public Safety Director	Sam White
Finance Director	Walker C. Gallman, Jr.
Utilities Director	Joe F. Nichols

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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, 2011, 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, 2011, and the respective changes in financial position, and, where applicable, cash flows and budgetary comparison for the general fund and local hospitality and accommodations 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 30, 2011, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which

consisted of inquiries of management about the methods of preparing information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Union, South Carolina's financial statements as a whole. The combining and individual non-major fund financial statements and statistical section are presented for the purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole. The statistical section has been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on it.



Terry R. Fant, CPA, PA
November 30, 2011

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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, 2011. 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 as listed in the table of contents.

Financial Highlights

- The assets of the City of Union exceeded its liabilities at the close of the most recent fiscal year by \$72,047,107 (*net assets*). Of this amount, \$15,162,344 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The unrestricted net assets are comprised of \$4,083,016 governmental activities and \$11,079,329 business type activities.
- The government's total net assets increased by \$768,573 over the prior year.
- As of the close of the current fiscal year, the City of Union's governmental funds reported combined ending fund balance of \$8,730,389, an increase of \$468,215 in comparison with the prior year. Approximately 41 percent of this total amount, \$3,593,108 is *available for spending* at the government's discretion (*unassigned General Fund balance*). The remaining governmental fund balance of \$5,137,281 is detailed in notes to financial statements on pages 62-65.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$3,593,108 or 65 percent of the total fund expenditures.
- The City of Union had \$13,879,033 in bonds, notes and leases outstanding versus \$12,878,726 last year, an increase of \$1,000,307. This increase represents the net of principle payments of \$995,199 during the year and new debt of \$1,995,506 issued during the year.

Overview of the Financial Statements

This discussion and analysis is 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 planning. 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 as listed in the table of contents..

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 thirteen 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 economic development 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 as listed in table of contents.

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 as listed in table of contents.

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 basic fiduciary fund financial statement can be found as listed in table of contents.

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 as listed in table of contents.

Other information. In addition to the basic financial statements and accompanying notes, the report also presents certain required supplementary information concerning the City of Union's variances in budget to actual revenues and expenditures for

the General Fund and The Hospitality and Accommodations Tax Fund. Required supplementary information can be found as listed in the table of contents.

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 as listed in table of contents.

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 \$72,047,107 at the close of the most recent fiscal year. By far the largest portion of the City of Union's net assets (69 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 is 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	
	2010	2011	2010	2011	2010	2011
Current and other assets	\$10,486,326	\$10,717,944	\$14,129,370	\$15,196,358	\$24,615,696	\$25,914,302
Capital assets	3,976,470	4,647,694	60,443,446	59,960,127	64,419,916	64,607,821
Total assets	14,462,796	15,365,638	74,572,816	75,156,485	89,035,612	90,522,123
Long-term liabilities outstanding	1,415,505	2,160,099	11,463,222	11,718,935	12,878,727	13,879,034
Other liabilities	2,168,664	1,996,821	2,709,683	2,599,164	4,878,347	4,595,985
Total liabilities	3,584,169	4,156,920	14,172,905	14,318,099	17,757,074	18,475,019
Net assets:						
Invested in capital assets, net of related debt	789,457	920,387	48,741,936	48,015,063	49,531,393	48,935,450
Restricted	4,909,251	6,205,317	1,381,878	1,743,995	6,291,129	7,949,312
Unrestricted	5,179,917	4,083,016	10,276,095	11,079,328	15,456,012	15,162,344
Total net assets	\$10,878,625	\$11,208,720	\$60,399,909	\$60,838,387	\$71,278,534	\$72,047,107

The balance of unrestricted net assets (\$15,162,344) 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 \$6,205,317, an increase of \$1,296,066. This increase is due to the borrowing of funds \$1,100,000 and restricting the use of the net insurance proceeds received from the loss of the old Union High School that totals \$943,533 to build an events center. The insurance proceeds last year were included in unrestricted net assets.

Restricted net assets reported in connection with the City of Union's business-type activities are \$1,743,995. This number

represents debt payments and debt reserve funds held by the trustee.

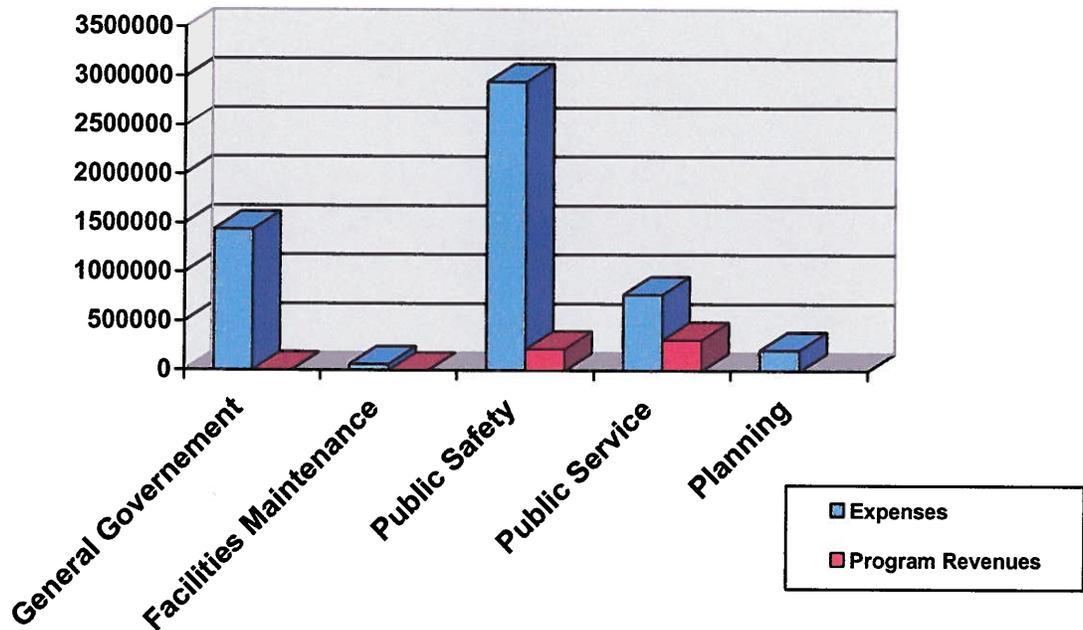
Governmental activities. Governmental activities increased the City of Union's net assets by \$330,095 thereby accounting for 3.03% of the total growth in net assets. Key elements of this increase are as follows:

- Operating grants for governmental activities increased by \$881; this increase is due to an increase in allocation of one percent funds remitted to Union County each year to be disbursed to fire departments throughout the County. These grant funds furnish resources to support the City of Union Public Safety employees.
- Capital grants continue to be a major source of funds to enhance the operation of certain departments of the City of Union. During the year the grant funds were received for the following purposes:(1) General Government received \$3,750 to conduct a marketing study , (2) Public Safety Department received \$22,947 to fund the purchase of additional equipment, (3) and the Public Service Department received \$312,465 to improve sidewalks and streets.
- On July 20, 2010 City Council passed an ordinance establishing a Local Hospitality and Accommodations Fee. Fees collected for Fiscal Year 2011 totaled \$135,174.

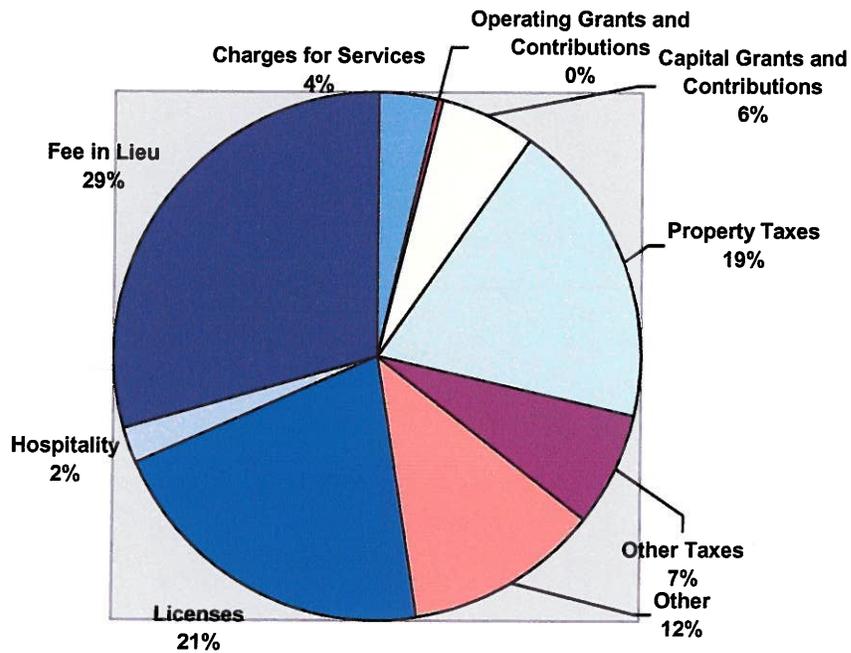
City of Union's Changes in Net Assets

	Governmental activities		Business-type activities		Total	
	2010	2011	2010	2011	2010	2011
Revenues:						
Program revenues:						
Charges for services	278,730	209,877	33,954,391	31,982,073	34,233,121	32,191,950
Operating grants and contributions	13,613	14,494,			13,613	14,494
Capital grants and contributions	231,148	339,162	279,619	417,256	510,767	756,418
General revenues:						
Property taxes	1,029,441	1,084,836			1,029,441	1,084,836
Other taxes and fees	3,291,044	3,434,664			3,291,044	3,434,664
Other	854,032	814,313	240,631	136,709	1,094,663	951,022
Total revenues	5,698,008	5,897,346	34,474,641	32,536,038	40,172,649	38,433,384
Expenses:						
General government	1,405,849	1,439,935			1,405,849	1,439,935
Facilities maintenance	62,449	63,507			62,449	63,507
Public safety	3,214,795	2,943,617			3,108,049	2,943,617
Public service	575,297	776,336			575,297	776,336
Planning	210,511	213,855			210,511	213,855
Electric			13,551,751	13,899,364	13,551,751	13,899,364
Water			2,907,876	2,991,453	2,907,876	2,991,453
Sewer			2,411,634	2,272,148	2,411,634	2,272,148
Gas			12,425,552	11,373,120	12,425,552	11,373,120
Solid Waste Mgt.			799,016	810,661	799,016	810,661
Interest expense			444,488	459,217	444,488	459,217
Total expenses	5,468,901	5,437,250	32,540,317	31,805,963	38,009,218	37,243,213
Increase in net assets before transfer	229,107	460,096	1,934,324	720,889	2,163,431	1,180,985
Loss on sale capital asset				-421,598		-421,598
Transfers	-130,000	-130,000	130,000	130,000	0	0
Increase in net assets	99,107	330,096	2,064,324	438,477	2,163,431	768,573
Net assets – 07/01	10,779,518	10,878,625	58,335,586	60,399,909	69,115,104	71,278,534
Net assets – 06/30	10,878,625	11,208,721	60,399,909	60,838,386	71,278,534	72,047,107

Expenses and Program Revenues - Governmental Activities



Revenue By Source - Governmental Activities



Business-type activities. Business-type activities increased the City of Union’s net assets by \$438,477 accounting for a less than 1 percent increase in total growth in the government’s net assets. Key elements of this increase are as follows:

Business-type activities of the City include a Combined Utility Fund, that is composed of electric, water, wastewater, and natural gas, and a Solid Waste Management Fund. The combined utilities and solid waste management charges for services decreased by 7 percent or \$2,393,916. This decrease is deceptive mainly because of the cost of natural gas purchases. The City actually sold more gas than the previous year, but the cost of natural gas purchased decreased.

Electric kwh sales, compared to last year, increased by 4,386,914 kwh. The increase in kwh sales should have resulted in increased revenue, but because of a credit received from Lockhart Power Company based on the true-up formula between them and Duke revenue was less than the prior year. This contract effective January 1, 2009 contains a true-up provision to correct any over or under charges. The true-up for calendar year 2009 was calculated in July 2010 resulting in a net over charge of approximately \$550,000 between Lockhart Power and PMPA charges for purchased power. This overcharge was credited to our customers over a (5) month period and was included in the PPA adjustment. Purchase power increased by 2.8% or \$298,204 over prior year.

On May 24, 2011 the sale of the electric generators and facility was finalized with Lockhart Power Company. Since the purchase power agreement with Lockhart Power Company was not renewed the City lost the ability to generate power for resale to reduce our purchased power cost each month. The loss on the sale of the generators and facility was \$421,598. This loss does not reflect total revenue net of expenses from the sale of power in the amount of \$1,802,844, during the years the plant operated. This revenue was netted against the cost of purchased power each year. By netting this revenue against the cost of power, electric rates to our customers were not increased. A purchased power adjustment (PPA) has been in effect since January 1, 2009 to offset the cost of purchased power each month.

Water sales per gallon decreased by 37,016,200 gallons or 3.94 %. Net sales were down due mainly to sales to our Industrial customers decreased 21,416,600 gallons or 23.1%. Revenue compared to last year increased by \$84,249 or 3.02%. This increase in revenue was due increased rates implemented for fiscal year 2011.

Wastewater discharged into our wastewater treatment plants decreased by 39,162,800 gallons or 11.27%. Discharges decreased in all rate classes with discharge from industrial customers decreasing by 19,785,800 gallons or 36.41%. Revenue compared to the prior year increased by \$19,591 or 1.1%. This increase was due to increased rates implemented for fiscal year 2011.

Natural gas sales volume decreased by 691,137 ccf hundred cubic feet or 4.7%. Industrial sales decreased 677,620 ccf or 6.96% which accounted for the majority of the total decreased volume. Revenue compared to prior year decrease by \$1,261,039 or 10.35%. In comparison, natural gas purchases decreased by 5.85% or 871,090 ccf compared to last year purchases. The cost of natural gas decreased by 10.63% or \$951,586 compared to last year.

City Council took a hard look at utility rates for Fiscal Year 2011 and decided to not raise electric rates, but continued the purchase power adjustment. Natural gas rates will remain the same, but water and wastewater rates increased by 10% on the base facility charge and 9.5% on volume only. The decline in industrial water and wastewater usage and the continued emphasis from federal and state mandates to maintain water quality is a concern and will need to be addressed in the future.

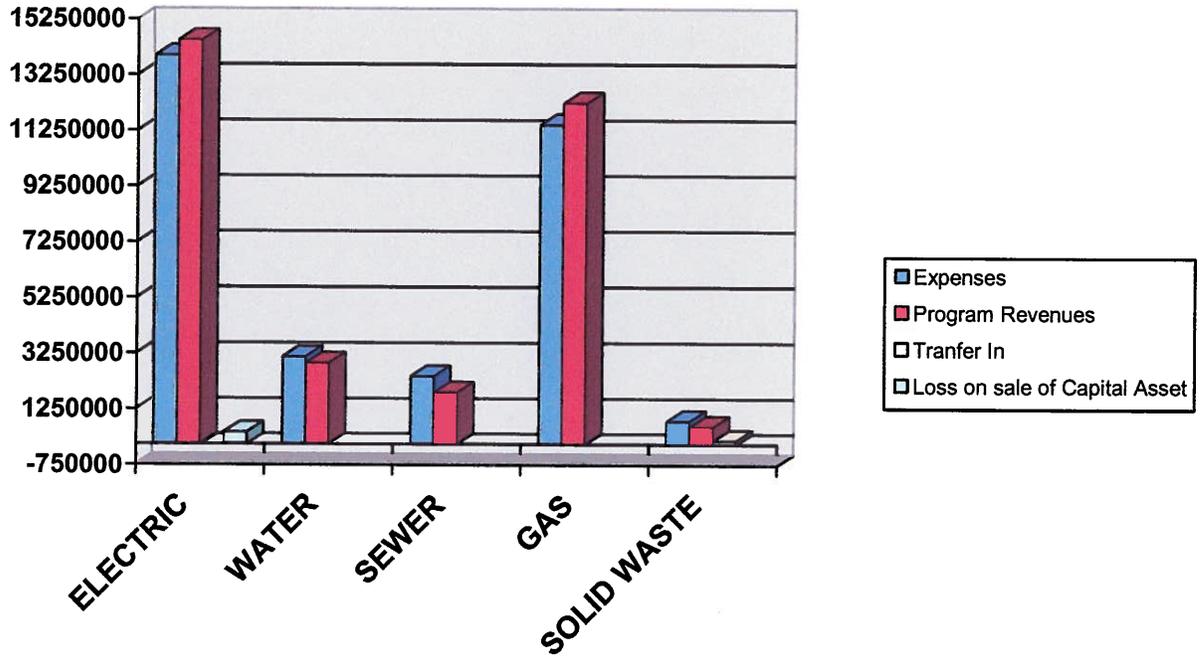
Solid Waste Management charges for services increased by 5.82% or \$34,842. This increase is due to the monthly fee charged to increasing by \$1 from \$12.00 to \$13.00 effective July 1, 2010.

- There were capital contributions to the Combined Utility during the current year totaling \$417,255.

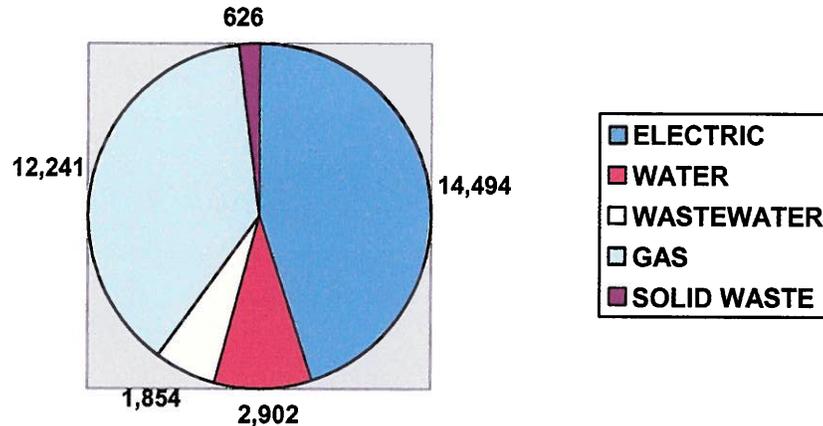
Sewer and water line improvement- Buffalo Area	\$ 291,269
Sewer and improvements-Union/Excelsior Mill Area	<u>125,986</u>
Total	\$ 417,255

- Investment earnings decreased by \$103,922 for business-type activities. The major causes of this decrease were lower interest rates and less available funds to invest.

Expenses and Program Revenues - Business Activities



Revenues by Source - Business-type Activities (Dollars in thousands)



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, *unassigned 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 \$8,730,390 an increase of \$468,216 in comparison with the prior year. Approximately 41 percent of this total amount \$3,593,108 constitutes *unassigned general fund balance* which is available for spending at the government's discretion. The remaining government fund balance is detailed on pages 60-65 of the notes to financial statements.

The general fund is the chief operating fund of the City of Union. At the end of the current fiscal year, unassigned fund balance of the general fund was \$3,593,108. As a measure of the general fund's liquidity, it may be useful to compare both unassigned and total fund balance to total fund expenditures. Unassigned fund balance represents 65 percent of total general fund expenditures.

The City of Union's General Fund, fund balance increased by \$233,356 during the current fiscal year. Key factors in this increase are as follows:

- Revenue was over budget by \$62,493;
 - 1) Payment in lieu of taxes decreased approximately 2.3% compared to last year. This revenue is based on the sales of the City's enterprise funds from the prior year.
 - 2) Business licenses, franchise fees, and building permits increased 10.4% or \$123,967 compared to last year.
 - 3) State collected revenues also decreased 12.4% or \$49,634 compared to last year.

- 4) Investment earning, compared to last year, decreased 80.09% or \$21,228.
- 5) Expenditures were under budget in the amount of \$365,018. City Council's philosophy has always been to prepare a budget that addresses the needs of the citizen's of the City of Union. All General Fund departments were under budget for FY 2011. Personnel vacancies, health care cost, and an overall effort to keep expenditures down were the main reasons for this under run.
- 6)

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 the Economic Development Fund to reimburse the Utility Enterprise Fund for advance to renovate YMCA property.
- Transfer of \$1,775 to the Special Revenue grants account to match a Public Safety grant.

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 \$11,079,329. The total increase in the unrestricted net assets was \$803,234. 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

During the year, appropriations between the original and final amended budget increased by \$873,000. This supplemental appropriation was used to purchase a 2011 Aerial Platform Fire Truck. The funding source for this appropriation is a lease purchase agreement with BB&T Governmental Finance. The term of this lease is for 10 years at 3.7%.

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, 2011, amounts to \$64,607,821 (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 1% increase for all funds.

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

- A 2011 KME Aerial Platform Fire Truck was purchased at a cost of \$873,000.
- A project to install radio read capability continues for all meters. Approximately 60% or 12,000 meters now have that capability.
- A generator was installed at the raw water pump station at a cost of \$173,468.
- Construction was completed to replace fire hydrants and valves at a cost of \$189,728.
- Construction was completed on a project that began in the prior year to replace aging water lines and wastewater collection lines. The total cost of the project was \$623,840. The major funding source for this project was a Community Block Grant in the amount of \$500,000.
- Construction began on an additional pump station to replace the Meng Creek Wastewater Facility; construction in progress as of the close of the fiscal year had reached \$1,414,854.08.
- Construction began on upgrading the wastewater collection lines at Union Mill and Excelsior Mill Villages; construction in progress as of the close of the fiscal year had reached \$163,994.57. Total cost of this project is estimated to be \$697,882. The major funding source for this project is a \$500,000 Community Development Block Grant.

City of Union's Capital Assets

	Governmental activities		Business-type activities		Total	
	2010	2011	2010	2011	2010	2011
Land and Construction in Progress	\$1,764,485	\$1,764,485	\$1,220,649	\$2,542,528	\$2,985,134	\$4,307,013
Buildings and Improvements	1,746,052	1,746,052	2,070,095	2,070,095	3,816,147	3,816,147
Improvements Other Than Bldgs.	1,676,858	1,676,858	93,257,431	92,688,549	94,934,289	94,365,407
Machinery & Equip.	2,789,745	3,672,746	5,972,507	6,415,109	8,762,252	10,087,855
Total	\$7,977,140	\$8,860,141	\$102,520,682	\$103,716,281	\$110,497,822	\$112,576,422

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 \$13,879,033. Of this amount \$0 comprises debt backed by the full faith and credit of the government. A \$332,777 S.C. Brownsfield Loan and lease purchase agreements in the amount of \$999,867 are included in the above total. 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	
	2010	2011	2010	2011	2010	2011
Tax increment bond	\$1,023,182	\$969,435	\$0	\$0	\$1,023,182	\$969,435
General obligation bonds						
SC Brownsfield Loan	357,654	332,777			357,654	332,777
Lease Payable	34,669	857,887	221,574	141,980	256,243	999,867
Revenue bonds			11,241,647	11,576,954	11,241,647	11,576,954
Total	\$1,415,505	\$2,160,099	\$11,463,221	\$11,718,934	\$12,878,726	\$13,879,033

The City of Union had \$13,879,033 in bonds, notes and leases outstanding compared to \$12,878,726 last year, a net increase of \$1,000,307. The increase represents the net of principal payments during the year of \$995,199 and new debt of \$1,995,506 issued during the year.

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 approximately \$1,200,000, which is significantly in excess of the City of Union's outstanding general obligation debt.

Other long-term liabilities include accrued other post-employment benefits of \$232,356 and accrued compensated absences of \$169,861 as of June 30, 2011.

Additional information on the City of Union's long-term debt can be found in note IV.E beginning on page 58 of this report.

Economic Factors and Next Year's Budgets and Rates

At June 30, 2011, the unemployment rate for the City of Union was 17.2%, a decrease down .03% from last year. In comparison, the state's unemployment rate was 11.2%, and the national rate was 9.3%.

These factors, and others, were considered in the preparation of the City of Union's budget for the 2011-12 fiscal year.

During the current fiscal year, unassigned fund balance in the General Fund increased by \$233,356 to \$3,593,108. The City of Union has appropriated \$296,630 for spending in the 2011-12 fiscal year budgets. Included in this budget are transfers of \$39,740. The City increased property taxes by 5.6 mills to offset a prior year loss. The maximum allowable under state law, for FY 2012 was 7.77%.

The Solid Waste Management fee increased from \$13 to \$14 per month. Electric rates will remain unchanged but the (PPA) purchase power adjustment will continue. Water and wastewater increased by 10% on the basic facility charge and 9% on volume. Natural gas rates will remain unchanged but the (PGA) purchase gas adjustment will continue. Also, security light fees increased for FY 2012.

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, 2011

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,948,460	\$ 286,740	\$ 2,235,200
Investments	3,575,886	7,878,259	11,454,145
Receivables (net of allowance for uncollectibles)	2,079,317	2,686,908	4,766,225
Due from other funds	57,548	(57,548)	-
Interest receivable	-	4,594	4,594
Inventories	-	628,608	628,608
Advances to other funds	226,129	1,567,208	1,793,337
Deferred charges	-	639,837	639,837
Deposits	-	310	310
Capital asset held for resale	2,727,949	-	2,727,949
Temporarily restricted assets:			
Investments	-	1,561,442	1,561,442
Intergovernmental receivable	102,655	-	102,655
Capital assets not being depreciated			
Land and construction in progress	1,764,485	2,539,258	4,303,743
Capital assets being depreciated net of accumulated depreciation			
Buildings and system	1,189,218	1,242,123	2,431,341
Improvements other than buildings	132,618	55,179,943	55,312,561
Machinery and equipment	1,278,463	998,803	2,277,266
Infrastructure	282,910	-	282,910
Total assets	<u>15,365,638</u>	<u>75,156,485</u>	<u>90,522,123</u>
LIABILITIES			
Accounts payable and other current liabilities	257,654	2,004,265	2,261,919
Retainage payable	-	88,585	88,585
Accrued interest payable	-	49,926	49,926
Noncurrent accrued compensated absences and OPEB	171,959	230,258	402,217
Noncurrent advances from other funds	1,567,208	226,129	1,793,337
Other noncurrent liabilities:			
Due within one year	159,330	980,761	1,140,091
Due in more than one year	2,000,769	10,738,174	12,738,943
Total liabilities	<u>4,156,920</u>	<u>14,318,098</u>	<u>18,475,018</u>
NET ASSETS			
Invested in capital assets, net of related debt	920,387	48,015,063	48,935,450
Restricted for:			
Community assistance	25,761	-	25,761
Tax increment district debt service and improvements	2,930,738	-	2,930,738
Debt service	-	1,743,995	1,743,995
Public safety	10,141	-	10,141
Victims rights assistance	(887)	-	(887)
Economic development	3,239,564	-	3,239,564
Unrestricted	4,083,016	11,079,329	15,162,345
Total net assets	<u>\$ 11,208,720</u>	<u>\$ 60,838,387</u>	<u>\$ 72,047,107</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, 2011

	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
Primary government:			
General government	\$ 1,439,935	\$ -	\$ -
Facilities maintenance	63,507	-	-
Public safety	2,943,617	180,892	14,494
Public service	776,336	-	-
Planning	213,855	28,985	-
Total governmental activities	<u>5,437,250</u>	<u>209,877</u>	<u>14,494</u>
Business-type activities:			
Solid Waste Management	828,261	625,842	-
Combined utility	30,977,702	31,356,231	-
Total business-type activities	<u>31,805,963</u>	<u>31,982,073</u>	<u>-</u>
Total primary government	<u>\$ 37,243,213</u>	<u>\$ 32,191,950</u>	<u>\$ 14,494</u>

General revenues:

Taxes

 Property taxes

 Fee in lieu of property taxes

 Local hospitality & accomodations tax

 Other taxes

 Occupational Licenses and Franchise Fees

Miscellaneous

 Unrestricted investment earnings

 Loss on sale of capital assets

 Intergovernmental Revenue

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
\$ 3,750	\$ (1,436,185)	\$ -	\$ (1,436,185)
-	(63,507)	-	(63,507)
22,947	(2,725,284)	-	(2,725,284)
312,465	(463,871)	-	(463,871)
-	(184,870)	-	(184,870)
<u>339,162</u>	<u>(4,873,717)</u>	<u>-</u>	<u>(4,873,717)</u>
-	-	(202,418)	(202,418)
417,256	-	795,784	795,784
<u>417,256</u>	<u>-</u>	<u>593,366</u>	<u>593,366</u>
<u>\$ 756,418</u>	<u>\$ (4,873,717)</u>	<u>\$ 593,366</u>	<u>\$ (4,280,351)</u>
	1,084,836	-	1,084,836
	1,692,755	-	1,692,755
	135,174	-	135,174
	399,302	-	399,302
	1,207,433	-	1,207,433
	274,606	-	274,606
	38,618	136,709	175,327
	-	(421,598)	(421,598)
	501,089	-	501,089
	(130,000)	130,000	-
	<u>5,203,813</u>	<u>(154,889)</u>	<u>5,048,924</u>
	330,096	438,477	768,573
	10,878,625	60,399,909	71,278,534
	<u>\$ 11,208,721</u>	<u>\$ 60,838,386</u>	<u>\$ 72,047,107</u>

City of Union, South Carolina

Balance Sheet

Governmental Funds

June 30, 2011

	<u>General</u>	<u>Economic Development</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 906,184	\$ -	\$ 1,042,275	\$ 1,948,460
Investments	2,627,139	-	948,746	3,575,886
Receivables (net of allowance for uncollectibles)	226,363	1,852,954	-	2,079,317
Due from other funds	(75,016)	180,607	(48,043)	57,548
Capital asset held for resale	-	2,727,949	-	2,727,949
Advances to other funds	226,129	-	-	226,129
Intergovernmental receivables - restricted	102,655	-	-	102,655
Total assets	<u>\$ 4,013,454</u>	<u>\$ 4,761,510</u>	<u>\$ 1,942,978</u>	<u>\$ 10,717,944</u>

City of Union, South Carolina
Balance Sheet
Governmental Funds
June 30, 2011

	General	Economic Development	Other Governmental Funds	Total Governmental Funds
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 257,654	\$ -	\$ -	\$ 257,654
Advances from other funds	-	1,567,208	-	1,567,208
Deferred revenue	52,452	-	-	52,452
Unearned revenue	110,243	-	-	110,243
Total liabilities	420,349	1,567,208	-	1,987,557
Fund Balances:				
Nonspendable	-	4,580,903	-	4,580,903
Restricted	-	-	111,779	111,779
Committed	-	-	1,901,760	1,901,760
Unassigned	3,593,106	(1,386,601)	(70,560)	2,135,946
Total fund balances	3,593,106	3,194,302	1,942,979	8,730,388
Total liabilities and fund balances	\$ 4,013,455	\$ 4,761,510	\$ 1,942,979	

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.

4,647,695

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

162,695

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

(2,332,058)

Net assets of governmental activities

\$ 11,208,720

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, 2011

	<u>General</u>	<u>Economic Development</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Property Taxes and Penalties	\$ 980,570	\$ -	\$ 103,093	\$ 1,083,663
Payment in Lieu of Taxes	1,692,755	-	-	1,692,755
Local hospitality & accomodations tax	-	-	135,174	135,174
Licenses, Permits and Fees	1,268,967	-	-	1,268,967
Fines and Forfeitures	111,222	-	-	111,222
Intergovernmental Revenues	553,183	-	371,231	924,414
State Collected Revenues	399,302	-	-	399,302
Investment Earnings	26,504	4,687	7,427	38,618
Miscellaneous Revenues	41,350	192,912	40,344	274,606
Total Revenues	<u>5,073,853</u>	<u>197,599</u>	<u>657,269</u>	<u>5,928,721</u>
EXPENDITURES				
Current				
General Government	1,061,415	59,891	161,960	1,283,266
Facilities Maintenance	63,507	-	-	63,507
Public Safety	2,676,848	-	63,074	2,739,922
Public Service	531,609	-	-	531,609
Planning	206,414	-	-	206,414
Capital Outlay				
General Government	-	-	51,783	51,783
Facilities maintenance	10,002	-	-	10,002
Public Safety	873,000	-	37,112	910,112
Public Service	-	-	218,634	218,634
Debt Service				
General Government	27,281	-	100,609	127,890
Public Safety	60,366	-	-	60,366
Total Expenditures	<u>5,510,442</u>	<u>59,891</u>	<u>633,172</u>	<u>6,203,505</u>
Excess (Deficiency) of Revenue Over (Under) Expenditures	<u>(436,589)</u>	<u>137,708</u>	<u>24,097</u>	<u>(274,784)</u>
OTHER FINANCING SOURCES & USES				
Loan Proceeds	873,000	-	-	873,000
Transfers				
Transfer - Solid Waste Mgmt Fund	(130,000)	-	-	(130,000)
Transfer - Economic Development	(71,280)	71,280	-	-
Transfer - Public Safety Grants	(1,775)	-	1,775	-
Total Other Financing Sources And Uses	<u>669,945</u>	<u>71,280</u>	<u>1,775</u>	<u>743,000</u>
Net Change In Fund Balances	233,356	208,988	25,872	468,216
FUND BALANCES - BEGINNING OF YEAR	3,359,752	2,985,315	1,917,107	8,262,174
FUND BALANCES - END OF YEAR	<u>\$ 3,593,108</u>	<u>\$ 3,194,303</u>	<u>\$ 1,942,979</u>	<u>\$ 8,730,390</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, 2011

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)	\$ 468,214
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.	671,226
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(31,376)
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.	(744,594)
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.	<u>(33,374)</u>
Change in net assets of governmental activities - per the Statement of Activities	<u><u>\$ 330,096</u></u>

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

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, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes and penalties	\$ 1,019,500	\$ 1,019,500	\$ 980,570	\$ (38,930)
Payment in lieu of taxes	1,656,900	1,656,900	1,692,755	35,855
Licenses, permits and fees	1,145,000	1,145,000	1,268,967	123,967
Fines and forfeitures	115,000	115,000	111,222	(3,778)
Intergovernmental revenues	586,700	586,700	553,183	(33,517)
State collected revenues	420,260	420,260	399,302	(20,958)
Investment Earnings	40,000	40,000	26,504	(13,496)
Miscellaneous revenues	28,000	28,000	41,350	13,350
Total Revenues	<u>5,011,360</u>	<u>5,011,360</u>	<u>5,073,853</u>	<u>62,493</u>
EXPENDITURES				
Current:				
General government	1,142,690	1,142,690	1,061,415	81,275
Facilities maintenance	84,000	84,000	63,507	20,493
Public safety	2,933,260	2,933,260	2,676,848	256,412
Public service	543,030	543,030	531,609	11,421
Planning	217,510	217,510	206,414	11,096
Capital Outlay:				
General government	-	-	-	-
Facilities maintenance	17,000	17,000	10,002	6,998
Public safety	-	873,000	873,000	-
Debt service:				
General government	29,690	29,690	27,281	2,409
Public safety	35,280	35,280	60,366	(25,086)
Total expenditures	<u>5,002,460</u>	<u>5,875,460</u>	<u>5,510,442</u>	<u>365,018</u>
Excess (deficiency) of revenue over (under) expenditures	<u>8,900</u>	<u>(864,100)</u>	<u>(436,589)</u>	<u>427,511</u>
OTHER FINANCING SOURCES (USES)				
Lease-purchase proceeds	-	873,000	873,000	-
Transfers out	(202,000)	(202,000)	(203,055)	(1,055)
Total other financing sources and uses	<u>(202,000)</u>	<u>671,000</u>	<u>669,945</u>	<u>(1,055)</u>
Net change in fund balances	(193,100)	(193,100)	233,356	426,456
Fund balances - beginning	<u>3,359,752</u>	<u>3,359,752</u>	<u>3,359,752</u>	<u>-</u>
Fund balances - ending	<u>\$ 3,166,652</u>	<u>\$ 3,166,652</u>	<u>\$ 3,593,108</u>	<u>\$ 426,456</u>

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

City of Union, South Carolina
Local Hospitality & Accomodation
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local hospitality & accomodations tax	\$ -	\$ 95,620	\$ 135,174	\$ 39,554
Investment earnings	-	-	92	92
Total Revenues	<u>-</u>	<u>95,620</u>	<u>135,266</u>	<u>39,646</u>
EXPENDITURES				
Current:				
General government	-	95,620	33,628	61,992
Planning	-	-	-	-
Capital Outlay:				
General government	-	-	-	-
Debt service:				
Total expenditures	<u>-</u>	<u>95,620</u>	<u>33,628</u>	<u>61,992</u>
Excess of revenue over expenditures	<u>-</u>	<u>-</u>	<u>101,638</u>	<u>101,638</u>
OTHER FINANCING SOURCES (USES)				
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>-</u>	<u>-</u>	<u>101,638</u>	<u>101,638</u>
Fund balances - beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 101,638</u>	<u>\$ 101,638</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, 2011

	<u>Combined Utility</u>	<u>Solid Waste Management</u>	<u>Total Proprietary Funds</u>
ASSETS			
Currents assets:			
Cash and cash equivalents	\$ 112,407	\$ 174,332	\$ 286,739
Investments	7,878,259	-	7,878,259
Interest receivable	4,594	-	4,594
Receivables (net of allowance for uncollectibles)	2,687,594	(685)	2,686,909
Due from other funds	(50,246)	(7,301)	(57,547)
Inventories	628,608	-	628,608
Total current assets	<u>11,261,216</u>	<u>166,346</u>	<u>11,427,562</u>
Noncurrent assets:			
Advances to other funds	<u>1,567,208</u>	-	<u>1,567,208</u>
Deposits	<u>310</u>	-	<u>310</u>
Deferred charges	<u>639,837</u>	-	<u>639,837</u>
Restricted cash, cash equivalents, and investments:			
Investments	<u>1,561,442</u>	-	<u>1,561,442</u>
Capital assets:			
Land and construction in progress	2,538,488	770	2,539,258
Buildings	1,612,605	457,490	2,070,095
Improvements other buildings	92,663,751	-	92,663,751
Machinery and equipment	5,065,557	1,377,620	6,443,177
Less accumulated depreciation	<u>(42,700,451)</u>	<u>(1,055,703)</u>	<u>(43,756,154)</u>
Total capital assets (net of accumulate depreciation)	<u>59,179,950</u>	<u>780,177</u>	<u>59,960,127</u>
Total noncurrent assets	<u>62,948,747</u>	<u>780,177</u>	<u>63,728,924</u>
Total assets	<u>74,209,963</u>	<u>946,523</u>	<u>75,156,486</u>

City of Union, South Carolina
Statement of Net Assets
Proprietary Funds
June 30, 2011

	<u>Combined Utility</u>	<u>Solid Waste Management</u>	<u>Total Proprietary Funds</u>
LIABILITIES			
Current liabilities:			
Accounts payable	1,991,433	12,832	2,004,265
Retainage payable	88,585	-	88,585
Total current liabilities	<u>2,080,018</u>	<u>12,832</u>	<u>2,092,850</u>
Current liabilities payable from restricted assets			
Revenue bonds payable	930,495	-	930,495
Lease-purchase payable	-	50,266	50,266
Accrued interest payable	49,926	-	49,926
Total current liabilities payable from restricted assets	<u>980,421</u>	<u>50,266</u>	<u>1,030,687</u>
Noncurrent liabilities:			
Accrued compensated absences and OPEB	211,594	18,664	230,258
Advances from other funds	-	226,129	226,129
Revenue bonds payable	10,646,461	-	10,646,461
Lease-purchase payable	-	91,714	91,714
Total noncurrent liabilities	<u>10,858,055</u>	<u>336,507</u>	<u>11,194,562</u>
Total liabilities	<u>13,918,494</u>	<u>399,605</u>	<u>14,318,099</u>
NET ASSETS			
Investment in capital assets, net of related debt	47,602,994	412,068	48,015,062
Restricted for debt service	1,743,995	-	1,743,995
Unrestricted	10,944,480	134,849	11,079,329
Total net assets	<u>\$ 60,291,469</u>	<u>\$ 546,917</u>	<u>\$ 60,838,386</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, 2011

	Enterprise Funds		
	Business-type Activities		
	Combined Utility	Solid Waste Management	Total
Operating revenues:			
Sales	\$ 29,336,637	\$ -	\$ 29,336,637
Sewer charges	1,751,958	-	1,751,958
Collection fees	-	632,852	632,852
Other revenues	(84,933)	(7,009)	(91,942)
Total operating revenues	<u>31,003,662</u>	<u>625,843</u>	<u>31,629,505</u>
Operating expenses:			
Purchased power and natural gas	20,006,261	-	20,006,261
System operations	6,674,838	667,940	7,342,778
Payment in lieu of franchise fee	1,643,796	29,604	1,673,400
Depreciation and amortization	2,211,191	113,117	2,324,308
Total operating expenses	<u>30,536,086</u>	<u>810,661</u>	<u>31,346,747</u>
Operating income (loss)	<u>467,576</u>	<u>(184,818)</u>	<u>282,758</u>
Nonoperating revenues (expenses):			
Investment earnings	136,317	392	136,709
Other	352,569	-	352,569
Interest expense	(441,617)	(17,600)	(459,217)
Loss of sale of fixed assets	(421,598)	-	(421,598)
Total nonoperating revenue (expenses)	<u>(374,329)</u>	<u>(17,208)</u>	<u>(391,537)</u>
Income (loss) before contributions and transfers	93,247	(202,026)	(108,779)
Capital contributions - net	417,256	-	417,256
Transfers in	-	130,000	130,000
Change in net assets	510,503	(72,026)	438,477
Total net assets - beginning	<u>59,780,966</u>	<u>618,943</u>	<u>60,399,909</u>
Total net assets - ending	<u>\$ 60,291,469</u>	<u>\$ 546,917</u>	<u>\$ 60,838,386</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, 2011

	<u>Utility</u>	<u>Solid Waste Management</u>	<u>Total</u>
Cash Flows From Operating Activities			
Receipts from customers and users	\$ 31,407,932	\$ 627,132	\$ 32,035,064
Payments for electricity and gas for resale	(20,128,851)	-	(20,128,851)
Payments in lieu of franchise fee	(1,643,796)	(29,604)	(1,673,400)
Payments to other funds	(189,493)	(151,467)	
Payments to suppliers	(3,179,594)	(371,037)	(3,550,631)
Payments to employees and related benefit providers	(3,712,222)	(311,979)	(4,024,201)
Net cash provided (used) by operating activities	<u>2,553,976</u>	<u>(236,955)</u>	<u>2,657,981</u>
Cash Flows From Noncapital Financing Activities			
Accrual of OPEB obligations and compensated absences	26,396	4,814	31,210
Transfer from other funds	-	130,000	130,000
Net cash provided [used] by noncapital financing activities	<u>26,396</u>	<u>134,814</u>	<u>161,210</u>
Cash Flows From Capital and Related Financing Activities			
Proceeds from lease-purchases and bond issues	1,122,506	-	1,122,506
Capital contributions	417,255	-	417,255
Deferred charges	(35,317)	-	(35,317)
Construction and purchase of fixed assets	(3,533,039)	(135,731)	(3,668,770)
Sale of fixed assets	1,509,980		
Principal paid on capital debt	(787,199)	(79,595)	(866,794)
Interest paid on capital debt	(441,617)	(17,600)	(459,217)
Nonoperating income/(expense)	352,572	-	352,572
Net cash provided (used) by capital and related financing activities	<u>(1,394,859)</u>	<u>(232,926)</u>	<u>(1,627,785)</u>
Cash Flows From Investing Activities			
Sale of investments - net of purchases	(1,401,459)	-	(1,401,459)
Interest income received	136,317	392	136,709
Net cash provided (used) by investing activities	<u>(1,265,142)</u>	<u>392</u>	<u>(1,264,750)</u>
Net increase (decrease) in cash and cash equivalents	(79,629)	(334,675)	(414,304)
Cash - beginning of year	<u>192,036</u>	<u>509,006</u>	<u>701,042</u>
Cash - end of year	<u>\$ 112,407</u>	<u>\$ 174,331</u>	<u>\$ 286,738</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, 2011

	Utility	Solid Waste Management	Total
Reconciliation of operating income to net cash provided (used) by operating activities:			
Operating income (loss)	\$ 467,576	\$ (184,818)	\$ 282,758
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation and amortization expense net of loss on refunding	2,152,507	113,117	2,265,624
(Increase) decrease in accounts receivable	51,701	1,290	52,991
(Increase) decrease in due to/from other funds	(189,493)	(151,467)	(340,960)
(Increase) decrease in advances to other funds	204,300	-	204,300
(Increase) decrease in accrued interest receivable	59	-	59
(Increase) decrease in inventories	(7,670)	-	(7,670)
(Increase) decrease in deposits	1,649	-	1,649
(Increase) decrease in bank overdraft	-	-	-
Increase (decrease) in accounts payable and accrued expenses	(122,590)	(2,918)	(125,508)
Increase (decrease) in accrued interest payable	(4,063)	-	(4,063)
Increase (decrease) in advances from other funds	-	(12,159)	(12,159)
Total adjustments	2,086,400	(52,137)	2,034,263
Net cash provided (used) by operating activities	\$ 2,553,976	\$ (236,955)	\$ 2,317,021

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, 2011

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 8,400. 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*. Likewise, internally dedicated resources are reported as general revenues rather than as program 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 a major fund.

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 planning.

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.

Fiduciary fund – The Fiduciary fund is used to account for resources held for the benefit of parties outside the government because the resources of that fund are not available to support the City’s own programs. The City uses an agency type fiduciary fund to account for seized assets that are being held for the court system until the cases are adjudicated. The agency fund consists of a cash account and a corresponding liability account. The agency fund reports no income or expenditures.

Proprietary funds - Enterprise funds

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.

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.

Management has evaluated subsequent events through the report issuance date

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

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 collectability 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 2011 is 79.9 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, 2011 amounted to \$166,890.

Receivables for reimbursements under grants are recognized in the Special Revenue fund when the related reimbursable expenditure is incurred and the revenue is expected to be received within 60 days of year end.

3. Inventories and prepaid items

Inventories of the 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.

Land and construction in progress are not depreciated. 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 classifications

Equity accounts represent the difference between the assets and the liabilities of a government or a given fund. Resources 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 classification 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.

Assignments 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 assignment 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.

Non-spendable fund balances represents the portion of fund balance that is associated with such items as inventories, prepaids, long-term loans and notes receivable, and property available for resale (unless the proceeds of the sale are restricted, committed or assigned) and is not available for appropriation or expenditure at the balance sheet date.

Restricted fund balances have constraints placed on the use of resources from either external creditors or imposed by law through constitutional provision or enabling legislation.

Committed fund balances can only be used for specific pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

Assigned fund balances are constrained by the government's intent to be used for specific purpose but are neither restricted nor committed. Unassigned fund balances have not been assigned to other funds and have not been restricted, committed, or assigned to specific purposes within the general fund.

Unassigned fund balances have not been assigned to other funds and have not been restricted, committed, or assigned to specific purposes within the general fund.

When committed, assigned and unassigned fund balances are available for use for the purpose of an expenditure, it is the government's policy to use committed amounts first, then assigned amounts and finally unassigned amounts as they are needed when any of those unrestricted fund balances could be used.

When both restricted and unrestricted fund balances are available and could be used for use for the purpose of an expenditure, it is the government's policy to spend restricted amounts first, then unrestricted resources as they are needed when either could be used.

For committed fund balances, the government's highest level of decision making is City Council. The formal action that is required to establish (and modify or rescind) a fund balance commitment is a City Ordinance.

For assigned fund balances, the Mayor is authorized to assign amounts to a specific purpose. Appointment by City Council is the policy established pursuant to which authorization is given.

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. Certain reclassifications are made to prior year amounts in the accompanying financial statements to conform to current year 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 does 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 \$(2,332,058) is as follows:

Notes payable	\$ (332,777)
Lease-purchases payable	(857,887)
OPEB obligation	(104,871)
Tax Increment Bonds	(969,435)
Compensated absences	<u>(67,088)</u>

Net adjustment to reduce *fund balance – total governmental funds*
to arrive at *net assets – governmental activities* \$ (2,332,058)

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 \$4,647,695 is as follows:

Total capital assets	\$ 8,860,142
Accumulated depreciation	<u>(4,212,447)</u>

Net adjustment to increase *fund balance – total governmental Funds* to arrive at *net assets – governmental activities* \$ 4,647,695

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 \$162,695 is as follows:

Grants	\$ 0
Deferred revenue – Property taxes and prepaid licenses	<u>162,695</u>

Net adjustment to increase *fund balance – total governmental funds* to arrive at *net assets – governmental activities* \$ 162,695

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 \$671,226 difference are as follows:

Capital outlay	\$ 83,003
Depreciation expense	<u>(211,777)</u>

Net adjustment to decrease *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities* \$ 671,226

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 \$ (31,376) are as follows:

Deferred grant revenue - net change	\$ 0)
Deferred property tax revenue and prepaid licenses– net change	<u>(31,376)</u>
Net adjustment to decrease <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ (31,376)</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 \$744,594 are as follows:

Debt issued	\$ (873,000)
Principal payments	<u>128,406</u>
Net adjustment to decrease <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ (744,594)</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 \$(33,374) are as follows:

OPEB Obligation - net increase	\$ (32,642)
Compensated absences – net increase	<u>(732)</u>
Net adjustment to decrease <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ (33,374)</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. Appropriations for the General Fund 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 supplemental appropriations adopted by the City Council and reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund.

B. Excess of expenditures over revenues/appropriations

For the year ended June 30, 2011, expenditures exceeded revenues in the following funds:

General Fund	\$ 436,589
Victim’s Rights Advocate Fund	27,050
“C” Fund	1,128
Solid Waste Management Fund	202,026
Firemen’s Fund	203
Grant Fund	63,493
Sidewalk Fund	689

C. Deficit fund equity

For the year ended June 30, 2011, the following funds had fund balance deficits:

Victim’s Rights Advocate Fund	\$ 889
Grants	68,545
“C” Fund	1,128

IV. Detailed notes on all funds

A. Deposits and investments

At year end, the government’s bank balance was \$2,267,880. 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, 2011 as follows:

	<u>Fair Value</u>	<u>Weighted Maturity</u>
US Government Securities	\$ 1,211,135	Less than one year
SC Local Government		
Investment Pool	397,543	Less than one year
Real Estate Joint Venture	450,629	Less than five years
Certificates of Deposit	3,999,565	Less than two years
Money Market	<u>6,956,715</u>	Less than two years
Total	<u>\$13,015,587</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 \$1,561,442 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 thirty-six 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, pledged by collateralized securities, or secured by bank letters of credit.

B. Receivables

Receivables include seven long term promissory notes receivable that are reported in the Economic Development Special Revenue Fund that will not be collected within one year. The promissory notes have maturity dates in excess of thirty years. The appropriate fund balance restrictions have been established.

Receivables at June 30, 2011, 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>Enterprise</u>	<u>Total</u>
Receivables:				
Property taxes and assessments	\$ 75,876	\$	\$	\$ 75,876
Other governments	118,927			118,927
Utility accounts			2,608,341	2,608,341
Notes Receivable		1,852,954		1,852,954
Other	<u>31,560</u>	<u> </u>	<u>78,568</u>	<u>110,128</u>
Net total receivables per fund financials	<u>226,363</u>	<u>1,852,954</u>	<u>2,686,909</u>	<u>4,766,226</u>
Reconciliation to government-wide financials:				
Adjustments to reclassify interest receivable	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net total receivables per government-wide financials	<u>\$ 226,363</u>	<u>\$1,852,954</u>	<u>\$2,686,909</u>	<u>\$4,766,226</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, 2011 was as follows:

	June 30, <u>2010</u>	<u>Additions</u>	<u>Retire- ments</u>	June 30, <u>2011</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,764,485	\$ _____	\$ _____	\$ 1,764,485
Capital assets being depreciated:				
Infrastructure	1,349,407			1,349,407
Buildings and improvements	1,746,052			1,746,052
Improvements other than buildings	327,451			327,451
Machinery and equipment	<u>2,789,744</u>	<u>883,002</u>	_____	<u>3,672,746</u>
Total depreciable capital assets	<u>6,212,654</u>	<u>883,002</u>	_____	<u>7,095,656</u>
Less accumulated depreciation:				
Infrastructure	1,046,825	19,672		1,066,497
Buildings and improvements	523,653	33,180		556,833
Improvements other than buildings	188,284	6,549		194,833
Machinery and equipment	<u>2,241,908</u>	<u>152,376</u>	_____	<u>2,394,284</u>
Total accumulated depreciation	<u>4,000,670</u>	<u>211,777</u>	_____	<u>4,212,447</u>
Total depreciable assets – net of accumulated depreciation	<u>2,211,984</u>			<u>2,883,209</u>
Governmental activities capital assets, net	<u>\$ 3,976,469</u>			<u>\$ 4,647,694</u>
	June 30, <u>2010</u>	<u>Additions</u>	<u>Retire- ments</u>	June 30, <u>2011</u>
Business-type activities:				
Capital assets not being depreciated:				
Construction in progress	\$ 897,534	\$ 1,321,879	\$ _____	\$2,219,413
Land	<u>23,115</u>	_____	_____	<u>323,115</u>
Total capital assets not being depreciated	<u>1,220,649</u>	<u>1,321,879</u>	_____	<u>2,542,528</u>
Capital assets being depreciated:				
Buildings and improvements	2,070,095			2,070,095
Improvements other than buildings	93,257,431	1,904,289	2,473,171	92,688,549
Machinery and equipment	<u>5,972,507</u>	<u>442,602</u>	_____	<u>6,415,109</u>
Total depreciable capital assets	<u>101,300,033</u>	<u>2,346,891</u>	<u>2,473,171</u>	<u>101,173,753</u>
Less accumulated depreciation:				
Buildings and improvements	874,672	43,569		918,241
Improvements other than buildings	36,094,522	1,930,879	541,593	37,483,808
Machinery and equipment	<u>5,108,042</u>	<u>246,063</u>	_____	<u>5,354,105</u>
Total accumulated depreciation	<u>42,077,236</u>	<u>2,220,511</u>	<u>541,593</u>	<u>43,756,154</u>
Total depreciable assets – net of accumulated depreciation	<u>59,222,797</u>			<u>57,417,599</u>
Business-type activities capital assets, net	<u>\$ 60,443,446</u>			<u>\$ 59,960,127</u>

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

Governmental activities:	
General government	\$ 53,660
Planning	5,482
Public safety	131,764
Public works	<u>20,871</u>
Total depreciation expense – governmental activities	<u>\$ 211,777</u>
Business-type activities	
Electric	\$ 532,192
Water	581,669
Sewer	532,916
Natural gas	460,617
Solid waste	<u>113,117</u>
Total depreciation expense – business-type activities	<u>\$ 2,220,511</u>

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

During the year utility fund construction projects included the expenditure of CDBG Funds in the amount of \$408,070.

D. Interfund receivables, payables and transfers

The composition of interfund balances as of June 30, 2011, is as follows:

Due to / from other funds:

	Due from <u>(receivable)</u>	Due to <u>(payable)</u>
General fund	\$	\$ 75,016
Special Revenue fund		48,043
Economic Development fund	180,606	
Solid Waste Management Enterprise fund		(7,301)
Utility Enterprise fund	<u> </u>	<u>(50,246)</u>
Total	<u>\$ 180,606</u>	<u>\$ (180,606)</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	\$ (75,016)
Special Revenue fund	(48,043)
Solid Waste Management Enterprise Fund	(7,301)
Economic Development fund	180,606
Utility Enterprise fund	<u>(50,246)</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. Both budgeted and unbudgeted transfers for the current year are reported in the financial statements.

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>Amount</u>	<u>Interest Rates</u>	
Governmental activities – year end balances:		
Tax Increment District Bond	4.58%	\$ 969,435
SC Brownfields Cleanup Revolving Loan/Grant	1.0%	<u>332,777</u>
Total governmental activities		<u>\$1,302,212</u>

On August 7, 2008, the City borrowed \$370,000 from the SC Brownfields Cleanup Revolving Loan/Grant program. The loan portion is due in semiannual installments of \$13,641 beginning January 2010 through July of 2019. Up to 30% of the loan will be forgiven, to a maximum of \$111,000, according to US EPA Brownfields Cleanup Revolving Fund Guidelines, provided the City complies with all of the terms and conditions set forth in the loan document. The debt to be forgiven will be written down over the term of the loan in ten equal annual installments.

On October 27, 2009, the City issued \$1,100,000 Tax Increment District Bonds to construct a multipurpose center. The bonds are in annual installments of \$100,609 through April of 2024.

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

<u>Year Ending</u> <u>June 30</u>	<u>Governmental activities</u>	
	<u>Principal</u>	<u>Interest</u>
2012	\$ 81,335	\$ 46,555
2013	84,161	43,729
2014	87,107	40,782
2015	90,180	37,710
2016	93,384	34,505
2017	96,726	31,164
2018	100,211	27,679
2019	103,846	24,044
2020	204,998	20,252
2021	84,109	16,500
2022	87,961	12,648
2023	91,990	8,619
2024	<u>96,204</u>	<u>4,406</u>
Total	<u>\$ 1,302,212</u>	<u>\$ 348,593</u>

Lease-purchases Payable

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

<u>Amount</u>	<u>Interest Rates</u>	
Governmental activities – year end balances:		
Fire Truck Lease	3.7%	<u>\$ 857,887</u>
Total governmental activities		<u>\$ 857,887</u>

On December 15, 2010, the City entered into a lease-purchase agreement for \$873,000 to buy an aerial platform fire truck. The lease-purchase is due in quarterly installments of \$25,093 through February of 2021.

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

<u>Year Ending</u> <u>June 30</u>	<u>Governmental activities</u>	
	<u>Principal</u>	<u>Interest</u>
2012	\$ 77,995	\$ 22,377
2013	80,122	20,250
2014	82,308	18,065
2015	84,552	15,820
2016	86,858	13,514
2017	89,227	11,145
2018	91,661	8,712
2019	94,161	6,211
2020	96,729	3,643
2021	<u>74,274</u>	<u>1,006</u>
Total	<u>\$ 857,887</u>	<u>\$ 120,743</u>

	<u>Interest Rates</u>	<u>Amount</u>
Business-type activities – year end balances:		
Garbage Truck Lease #2	3.7%	<u>\$ 141,980</u>
Total business-type activities		<u>\$ 141,980</u>

On March, 2009, the City entered into a lease-purchase agreement for \$250,000 to buy a garbage truck. The lease-purchase is due in quarterly installments of \$13,503 through February of 2014.

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

<u>Year Ending</u> <u>June 30</u>	<u>Governmental activities</u>	
	<u>Principal</u>	<u>Interest</u>
2012	\$ 50,266	\$ 3,747
2013	51,812	2,201
2014	<u>39,902</u>	<u>608</u>
Total	<u>\$ 141,980</u>	<u>\$ 6,556</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>\$12,162,530</u>

Long-term obligations recorded in the Enterprise fund include the following at June 30, 2011:

SRF Tosh Creek Loan	\$ 606,576
SRF Meng Creek Loan	333,819
SRF 2008 Loan	1,476,662
SRF 2010 Loan	1,122,506
SRF Oak Grove Elevated Tank Loan	842,472
SIRF 2000 Loan	1,155,495
Series 2004 Bond Issue	<u>6,625,000</u>
Subtotal	12,162,530
Less: Unamortized loss on refunding - Series 1994	<u>(585,576)</u>
Subtotal	11,576,954
Less: Current portion	<u>(930,495)</u>
Non-current portion	<u>\$ 10,646,459</u>

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.

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.

On May 1, 2009, the City entered into a loan agreement for \$1,593,723 from the SC Water Pollution Control Revolving Fund for waste treatment system improvements. The loan is due in quarterly installments of \$27,171 including interest at 3.25 through May 2029.

On December 29, 2010, the City entered into a loan agreement for \$2,421,854 from the SC State Revolving Fund for the Meng Creek Wastewater Treatment Plant Closure project. The loan is due in quarterly installments of \$42,222 including interest at 3.50 through December 2031.

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.

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

Interest expense totaling \$29,087 was reported as a direct expense in the governmental type funds. Interest expense in the amount of \$10,615 for a fire truck loan was reported under the public safety function. Interest expense in the amount of \$46,862 for a tax increment district bond and \$2,405 for a Brownfields Cleanup loan were reported as a direct expense under the general government function.

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>
2012	\$ 930,495	\$ 454,126
2013	1,007,834	458,831
2014	1,054,266	418,999
2015	1,096,333	377,434
2016	1,134,053	334,312
2017	1,161,024	289,605
2018	1,042,154	246,701
2019	1,089,046	206,110
2120	1,131,361	163,796
2021	1,144,116	120,439
2022	256,633	93,446
2023	266,199	83,879
2024	276,132	73,947
2025	286,442	63,636
2026	297,149	52,930
2027	308,263	41,815
2028	319,806	30,273
2029	257,979	19,591
2030	156,841	12,047
2031	162,403	6,485
2032	<u>83,349</u>	<u>1,095</u>
Subtotal	\$ 13,461,878	<u>\$3,549,497</u>
Less: SRF 2010 Loan proceeds not drawn down by 06/30/2011	(1,299,348)	
Less: Unamortized loss on refunding	<u>(585,576)</u>	
Net balance reported on financial statements	<u>\$11,576,954</u>	

Changes in long-term liabilities

Long-term liability activity for the year ended June 30, 2011, 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	\$ 34,669	\$ 873,000	\$ 49,782	\$ 857,887	\$ 77,995
Accrued OPEB	72,228	32,643	0	104,871	0
Accrued compensated absences	66,356	732	0	67,088	0
Tax increment district bonds	1,023,182	0	53,747	969,435	56,209
Notes payable & unamortized debt forgiveness	<u>357,654</u>	<u>0</u>	<u>24,877</u>	<u>332,777</u>	<u>25,126</u>
Total	<u>\$ 1,554,089</u>	<u>\$ 906,375</u>	<u>\$ 128,406</u>	<u>\$ 2,332,058</u>	<u>\$159,330</u>
Business-type activities:					
Lease-purchase payable	\$ 221,574	\$ 0	\$ 79,594	\$ 141,980	\$ 50,266
Accrued compensated absences	107,120	0	4,347	102,773	0
Accrued OPEB	91,928	35,557	0	127,485	0
Bonds payable	<u>11,241,647</u>	<u>1,122,506</u>	<u>787,199</u>	<u>11,576,954</u>	<u>930,495</u>
Total	<u>\$ 11,662,269</u>	<u>\$1,158,063</u>	<u>\$ 871,140</u>	<u>\$11,949,192</u>	<u>\$ 980,761</u>

F. Fund equity classifications

Fund equity is segregated into the following classifications on the balance sheets:

Nonspendable 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.

Nonspendable 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.

Restricted 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.

Restricted 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.

Restricted for public safety – represents grant funds , law enforcement agency funds, and 1% state firemen’s funds held in various special revenue funds that are required to be used specifically for public safety programs.

Restricted for building improvements – represents grant funds held in a special revenue fund that are required to be used specifically for building improvements.

Committed 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.

Committed 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.

Unassigned - represents resources available for appropriation in following years for any lawful purpose. Unassigned fund balances have not been assigned to other funds and have not been restricted, committed, or assigned to specific purposes within the general fund

The government-wide financial statement designates net assets that are legally restricted as *Restricted Net Assets*. These are net assets of the City that are restricted for a specific purpose. "Restricted Net Assets" use is limited to those items that are legally restricted and should not include items that are "earmarked" for specific purposes through commitments or assignments.

The restricted cash, investments and receivables 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 or grants restricted for construction or grant projects.

The following is a breakdown of year end governmental fund balance types:

	<u>Nonspendable</u>	<u>Restricted</u>	<u>Committed</u>	<u>Unassigned</u>
General Fund	\$ 0	\$ 0	\$ 0	\$3,593,106
Economic Development Fund	4,580,903	0	0	(1,386,601)
Local Hospitality and Accom. Fd.	0	101,638	0	0
Tax Increment District Fund	0	0	630	0
Drug Fund	0	6,023	0	0
Victim's Rights Advocate Fund	0	0	0	(887)
Community Change Fund	0	0	25,761	0
Grants Fund	0	0	0	(68,546)
Sidewalk Fund	0	0	25,521	0
"C" Funds	0	0	0	(1,127)
PMPA Funds	0	0	19,741	0
Union Events Center Fund	0	0	1,830,108	0
Firemen's Fund	0	4,117	0	0
Total	\$4,580,903	\$111,778	\$1,901,761	\$2,135,945

G. Major and Nonmajor Special Revenue Funds Activity

Non-major funds:

Downtown Redevelopment Project (Tax Increment District)

During the fiscal year 2011, the City issued a \$1,100,000 bond to multipurpose center. During the current year, \$883,128 was transferred to the Union Events Center Fund. The remaining balance in this fund balance can be used to enhance City of Union-owned property within the district.

Union Events Center Fund

This fund consists of the balance of insurance proceeds received when the old Union High School burned. Of the \$2,000,000 received \$1,000,000 was awarded to the Union Community Foundation, \$315,503 to purchase 21.3 acres that is now the home of the Quick Jobs Center. During the current year, \$883,128 was transferred from the Downtown Redevelopment Project (Tax Increment District). The funds will be used to fund a new multipurpose center to be built in downtown Union.

Drug Account Fund

This account is derived from confiscated drug money or property by order of the courts. Expenditures are restricted for law enforcement activities.

Victims' Rights Advocate Fund

Fees and surcharges on fines comprise this fund balance. Per the City of Union's agreement with Union County, 100% of all fees and surcharges collected are remitted to them.

Community Change Fund

Participating utility customers have their bill rounded up the next dollar. Funds generated from this are maintained in a separate bank account and are committed to offset utility bills for qualifying customers.

Grant Funds

These funds were received from federal and state grantor agencies and are restricted for the purposes stipulated in the grant agreements

“C” Funds

These funds are restricted by the State for street and sidewalk construction expenditures.

Sidewalk Fund

These funds are committed for sidewalk construction expenditures.

“PMPA” Funds

These funds were received from Piedmont Municipal Power Agency, a joint action agency, composed of the City of Union and nine other agencies. These funds are committed for promotional activities expenditures.

Firemen’s Fund

These funds were received from the State and are restricted by the State for specific fire safety related expenditures.

Local Hospitality and Accommodations Fund

This account is derived from a tax levied on food service and accommodations business within the city limits. These funds are restricted by State law for tourism expenditures.

Major fund:

Economic Development Fund

The Economic Development Fund includes \$2,727,950 which represents the investment in the Spec Building located at the Union County Commerce Park. This building has been up fitted to certain standards and is being leased to TIMKEN, LLC. The initial lease on this building is for ten years with options to extend or purchase.

This fund is also comprised of several promissory notes receivable from projects rehabilitating buildings in downtown Union. These notes are as follows:

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 payment due annually for 24 years. The remaining balance at June 30, 2011, is \$28,312.

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 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 City of Union has a promissory note from Fairforest limited Partnership in the amount of \$50,868. The note, dated 1994, has a 0% interest rate with a balloon payment due in 15 years.

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 the 30th anniversary of the loan date. The payment amount will be based on adjusted cash flow derived from operations.

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, 2011 is \$10,187.

The City of Union has a promissory note from Fairforest V Limited Partnership in the amount of \$245,000 and \$333,000. The terms of the notes are as follows:

The \$245,000 note, dated January 17, 2003, 1% interest is due beginning December 31 each year for 30 years, beginning December 31, 2004. Beginning December 31, 2024, principle and interest will be due at a rate of 2%- 20 equal payments of \$14,848.00.

The \$330,000 note, dated January 17, 2003, beginning December 31, 2035, 31 years after the completion date – 20 equal payments of \$16,500 annually at 0% interest.

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

During the year ended June 30, 2011, the City had no material related party transactions.

C. Subsequent events

Management has evaluated subsequent events through the report issuance date

D. Commitment and 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 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.

The City had several commitments for construction contracts in progress at June 30, 2011 with retainages totaling \$88,585 being withheld. The contracts totaled \$2,795,110 with work 56% complete at year end.

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

1. Plan description

Beginning in fiscal year 2009, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 45 prospectively for other post-employment benefits (OPEB) offered to retirees. This standard addresses how local governments should account for and report their costs related to post-employment healthcare. The funding methodology mirrors the funding approach used for pension benefits.

The City provides post-retirement health benefits, as per the requirement of a local ordinance, for certain retirees and their dependents. The City of Union OPEB Plan (plan) is approved each year by City Council. The plan is a single member defined benefit OPEB plan administered internally by the City. Information about the plan is included in the City's entity-wide financial statements. Participants must be eligible to retire under the South Carolina Retirement System (SCRS or PORS) to receive the benefits upon retirement. In addition, the retiree must meet one of the following criteria:

1. Age 62-65 with 20 years of service with the City
2. 25 years service with the City
3. 10 years of service with the City and retires under disability
4. An elected official with 20 years of service with the City

The City provides two options to its retirees.

Option 1: Retirees can elect to receive a monthly supplement from the City until age 65 or until Medicare eligible, whichever comes first. The monthly supplement is the cost of the retiree's insurance premium, not to exceed the amount contributed by the City each month for the employee's medical insurance coverage at the time of the employee's retirement and not to exceed the amount actually paid in premium by the retiree. Payments to the retiree are limited to the amount payable for single coverage.

Option 2: Retirees can elect to stay on the City's group insurance plan and pay all costs. This allows retirees to cover a spouse. The cost of coverage for pre-65 retirees is implicitly subsidized by the City.

The plan includes a disability benefit after 10 years of service the same as the above benefit.

The plan does not include a special pre-retirement death benefit.

The plan does not include a special withdrawal benefit.

Service is determined from date of hire.

Retirees pay 100 percent of the health insurance premiums. The City's regular health insurance providers underwrite the retiree's policies.

2. Funding policy

As of July 1, 2010, there were 124 employees in active service of which 18 members were retirees receiving benefits and 106 were active participants in the plan eligible to receive future benefits. The City currently finances the plan on a pay-as-you-go basis. For the year ended June 30, 2011, City recognized pay-as-you-go expenses of approximately \$22,922 for healthcare, which were net of retiree contributions.

The City's annual other postretirement benefits (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding required that, if paid on an annual basis, is projected to cover the normal cost for each year plus the amount necessary to amortize any unfunded liability over a period not to exceed 30 years. The current ARC is based on a level percent of payroll growth increasing annually at 4%.

3. Annual OPEB cost and funded status and funding progress

For the year ended June 30, 2011, the annual OPEB cost (expense) of \$68,200 is equal to the ARC. The ARC for the year ended June 30, 2011 is computed as follows:

Annual OPEB cost -	
Normal costs for current year	\$ 39,800
Amortization of the unamortized accrued liability	<u>28,400</u>
Total annual required contribution	68,200
Net OPEB obligation – beginning of year	<u>164,156</u>
Net OPEB obligation – end of year (ARC)	<u>\$ 232,356</u>

Funding status –	
Actuarial Valuation date	7/01/2010
Actuarial value of assets	\$ 0
Actuarial accrued liability (AAL)	<u>760,800</u>
Unfunded AAL (UAAL)	<u>\$ 760,800</u>
Funded ratio	0.0%
Covered payroll	\$4,673,000
UAAL as a percentage of covered payroll	16%

For the year ended June 30, 2011, the City's management elected to not accumulate or dedicate funding for the net OPEB obligation. Accordingly, the net OPEB obligation recorded at June 30, 2011 was \$232,356. The plan's unfunded actuarial liability is being amortized as a level dollar amount of projected payroll over a period of 30 years. The remaining amortization period at June 30, 2011 was 27 years.

4. Actuarial methods and assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between employer and plan members to that point. The

actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. The actuarially determined amounts are subject to continual revisions as actual results are compared to past expectations and new estimates are made about future events and costs. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the value of assets, consistent with the long-term perspective of the calculations.

The City used the projected unit credit method for the July 1, 2010 valuation. The actuarial assumption includes a 4.5% investment rate of return. For all retirees the initial healthcare cost trend was 8.2%. The trend rate will be graded to 4.7% over 80 years. Payroll growth is estimated to be 4.0% per year. The asset valuation method used is market value.

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 active employees covered by the SCRS for the year ended June 30, 2011 was \$3,481,500. The total payroll for employees covered by the PORS for the year ended June 30, 2011 was \$1,455,569. The payroll for retired members for the year ended June 30, 2011 was \$261,150 for SCRS and \$112,484 for PORS.

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, 2011 and the years ended June 30, 2010 and 2009, the City contributed 100% of the required contributions. Contributions by the City for employees covered by the SCRS and PORS were based on 9.24% and 11.13 of the employees' earnings and amounted to \$345,821 for the year ended June 30, 2011 (SCRS) and \$174,524 (PORS), \$346,108 (SCRS) and \$171,504 (PORS) for the year ended June 30, 2010 and \$345,437 (SCRS) and \$181,816 (PORS) for the year ended June 30, 2009. Employee contributions for the SCRS and PORS were based on 6.5% and 6.5% of the employees' earnings and amounted to \$243,272 for the year ended June 30, 2011 (SCRS) and \$101,923 (PORS), \$241,941 (SCRS) and \$104,765 (PORS) for the year ended June 30, 2010 and \$239,994 (SCRS) and \$110,968 (PORS) for the year ended June 30, 2009.

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, 2011

	Local Hospitality & Accomodations	Tax Increment District	Drug Account	Victim's Rights Advocate Fund	Community Change
ASSETS					
Cash and cash equivalents	\$ 126,258	\$ 2,877	\$ 6,023	\$ -	\$ 23,885
Investments	-	-	-	-	-
Receivables (net of allowance for uncollectibles)	-	-	-	-	-
Due from other funds	(24,620)	(2,247)	-	(887)	1,876
Total assets	<u>\$ 101,638</u>	<u>\$ 630</u>	<u>\$ 6,023</u>	<u>\$ (887)</u>	<u>\$ 25,761</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:					
Restricted	101,638	-	6,023	-	-
Committed	-	630	-	-	25,761
Unassigned	-	-	-	(887)	-
Total fund balances	<u>101,638</u>	<u>630</u>	<u>6,023</u>	<u>(887)</u>	<u>25,761</u>
Total liabilities and fund balances	<u>\$ 101,638</u>	<u>\$ 630</u>	<u>\$ 6,023</u>	<u>\$ (887)</u>	<u>\$ 25,761</u>

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

**Special
Revenue**

<u>Grants</u>	<u>Sidewalk Fund</u>	<u>'C' Funds</u>	<u>PMPA Funds</u>	<u>Union Events Center</u>	<u>Firemen's Fund</u>	<u>Total Nonmajor Governmental Funds</u>
\$ -	\$ -	\$ -	\$ -	\$ 879,115	\$ 4,117	\$ 1,042,275
-	-	-	-	948,746	-	948,746
-	-	-	-	-	-	-
(68,546)	25,521	(1,127)	19,741	2,247	-	(48,042)
<u>\$ (68,546)</u>	<u>\$ 25,521</u>	<u>\$ (1,127)</u>	<u>\$ 19,741</u>	<u>\$ 1,830,108</u>	<u>\$ 4,117</u>	<u>\$ 1,942,979</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
-	-	-	-	-	4,117	111,778
-	25,521	-	19,741	1,830,108	-	1,901,761
(68,546)	-	(1,127)	-	-	-	(70,560)
<u>(68,546)</u>	<u>25,521</u>	<u>(1,127)</u>	<u>19,741</u>	<u>1,830,108</u>	<u>4,117</u>	<u>1,942,979</u>
<u>\$ (68,546)</u>	<u>\$ 25,521</u>	<u>\$ (1,127)</u>	<u>\$ 19,741</u>	<u>\$ 1,830,108</u>	<u>\$ 4,117</u>	<u>\$ 1,942,979</u>

City of Union, South Carolina
Combining Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2011

	<u>Local Hospitality & Accomodations</u>	<u>Tax Increment District</u>	<u>Drug Account</u>	<u>Victim's Rights Advocate Fund</u>	<u>Community Change</u>
REVENUES					
Property Taxes and Penalties	\$ -	\$ 103,093	\$ -	\$ -	\$ -
Local hospitality & accommodations tax	135,174	-	-	-	-
Licenses, Permits and Fees	-	-	-	-	-
Intergovernmental Revenues	-	-	-	17,575	-
Investment Earnings	92	257	11	-	54
Miscellaneous Revenues	-	-	1,390	-	21,900
Total Revenues	<u>135,266</u>	<u>103,350</u>	<u>1,401</u>	<u>17,575</u>	<u>21,954</u>
EXPENDITURES					
Current:					
General Government	33,628	-	-	-	20,752
Public Safety	-	-	-	44,625	-
Capital Outlay:					
General Government	-	2,455	-	-	-
Public Safety	-	-	-	-	-
Public Service	-	-	-	-	-
Debt Service:					
General Government	-	100,609	-	-	-
Total Expenditures	<u>33,628</u>	<u>103,064</u>	<u>-</u>	<u>44,625</u>	<u>20,752</u>
Excess (deficiency) of revenues over (under) expenditures	<u>101,638</u>	<u>286</u>	<u>1,401</u>	<u>(27,050)</u>	<u>1,202</u>
OTHER FINANCING SOURCES & USES					
Transfers - net:					
Grants	-	(883,128)	-	-	-
Loan Proceeds	-	-	-	-	-
Total other financing sources and (uses)	<u>-</u>	<u>(883,128)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	101,638	(882,842)	1,401	(27,050)	1,202
Fund Balances - beginning	<u>-</u>	<u>883,471</u>	<u>4,623</u>	<u>26,164</u>	<u>24,559</u>
Fund Balances - ending	<u>\$ 101,638</u>	<u>\$ 629</u>	<u>\$ 6,024</u>	<u>\$ (886)</u>	<u>\$ 25,761</u>

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

Special Revenue

<u>Grants</u>	<u>Sidewalk Fund</u>	<u>'C' Funds</u>	<u>PMPA Funds</u>	<u>Union Events Center</u>	<u>Firemen's Fund</u>	<u>Total Nonmajor Governmental Funds</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 103,093
-	-	-	-	-	-	135,174
-	-	-	-	-	-	-
26,697	94,958	217,506	-	-	14,494	371,230
-	-	-	-	7,012	2	7,428
-	-	-	17,054	-	-	40,344
<u>26,697</u>	<u>94,958</u>	<u>217,506</u>	<u>17,054</u>	<u>7,012</u>	<u>14,496</u>	<u>657,269</u>
-	95,647	-	8,368	3,565	-	161,960
3,750	-	-	-	-	14,699	63,074
49,328	-	-	-	-	-	51,783
37,112	-	-	-	-	-	37,112
-	-	218,634	-	-	-	218,634
-	-	-	-	-	-	100,609
<u>90,190</u>	<u>95,647</u>	<u>218,634</u>	<u>8,368</u>	<u>3,565</u>	<u>14,699</u>	<u>633,172</u>
<u>(63,493)</u>	<u>(689)</u>	<u>(1,128)</u>	<u>8,686</u>	<u>3,447</u>	<u>(203)</u>	<u>24,097</u>
1,775	-	-	-	883,128	-	1,775
-	-	-	-	-	-	-
<u>1,775</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>883,128</u>	<u>-</u>	<u>1,775</u>
(61,718)	(689)	(1,128)	8,686	886,575	(203)	25,872
(6,827)	26,210	-	11,055	943,533	4,320	1,917,108
<u>\$ (68,545)</u>	<u>\$ 25,521</u>	<u>\$ (1,128)</u>	<u>\$ 19,741</u>	<u>\$ 1,830,108</u>	<u>\$ 4,117</u>	<u>\$ 1,942,980</u>

City of Union, South Carolina
Combining Schedule of Revenues and Expenses by Division
Utility Enterprise Fund
For the Year Ended June 30, 2011

	Enterprise Funds				Total
	Electric Division	Water Division	Sewer Division	Gas Division	
Operating revenues:					
Sales	\$ 14,290,390	\$ 2,873,486	\$ -	\$ 12,172,761	\$ 29,336,637
Sewer charges	-	-	1,751,958	-	1,751,958
Other revenues	(60,863)	(3,893)	(15,308)	(4,868)	(84,932)
Total operating revenues	14,229,527	2,869,593	1,736,650	12,167,893	31,003,663
Operating expenses:					
Purchased power and natural gas	11,055,138	-	-	8,951,123	20,006,261
System operations	1,553,241	2,240,649	1,628,205	1,252,743	6,674,838
Payment in lieu of franchise fee	742,752	140,268	87,228	673,548	1,643,796
Depreciation	548,233	610,536	556,715	495,706	2,211,190
Total operating expenses	13,899,364	2,991,453	2,272,148	11,373,120	30,536,085
Operating income (loss)	330,163	(121,860)	(535,498)	794,773	467,578
Nonoperating revenues (expenses):					
Investment earnings	50,653	13,767	10,708	61,188	136,316
Other	214,130	19,428	106,471	12,540	352,569
Interest expense	(43,577)	(139,107)	(163,560)	(95,374)	(441,618)
Loss of sale of fixed assets	(421,598)	-	-	-	(421,598)
Total nonoperating revenue (expenses)	(200,392)	(105,912)	(46,381)	(21,646)	(374,331)
Net income (loss) before contributions and transfers	\$ 129,771	\$ (227,772)	\$ (581,879)	\$ 773,127	\$ 93,247

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, 2011

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating revenues:			
Sales - Residential	\$ 6,633,200	\$ 7,446,852	\$ (813,652)
Sales - Commercial	5,265,860	5,785,449	(519,589)
Sales - Industrial	620,280	753,783	(133,503)
Sales - Other	2,215,780	304,306	1,911,474
Other revenues	(26,000)	(60,863)	34,863
Total operating revenues	<u>14,709,120</u>	<u>14,229,527</u>	<u>479,593</u>
Operating expenses:			
Purchased power and natural gas	11,981,700	11,055,138	926,562
System operations	1,905,640	1,553,241	352,399
Payment in lieu of franchise fee	650,000	742,752	(92,752)
Depreciation and amortization	-	548,233	(548,233)
Total operating expenses	<u>14,537,340</u>	<u>13,899,364</u>	<u>637,976</u>
Operating income (loss)	<u>171,780</u>	<u>330,163</u>	<u>(158,383)</u>
Nonoperating revenues (expenses):			
Investment earnings	44,000	50,653	(6,653)
Other	401,920	214,130	187,790
Interest expense	(289,480)	(43,577)	(245,903)
Loss of sale of fixed assets	-	(421,598)	421,598
Total nonoperating revenue (expenses)	<u>156,440</u>	<u>(200,392)</u>	<u>356,832</u>
Income (loss) before contributions and transfers	<u>\$ 328,220</u>	<u>\$ 129,771</u>	<u>\$ 198,449</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, 2011

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating revenues:			
Sales - Residential	\$ 1,231,850	\$ 1,222,081	\$ 9,769
Sales - Commercial	384,330	371,622	12,708
Sales - Industrial	237,920	278,456	(40,536)
Sales - Water Districts	1,002,640	1,001,327	1,313
Other revenues	10,000	(3,893)	13,893
Total operating revenues	<u>2,866,740</u>	<u>2,869,593</u>	<u>(2,853)</u>
Operating expenses:			
System operations	2,470,010	2,240,649	229,361
Payment in lieu of franchise fee	150,000	140,268	9,732
Depreciation and amortization	-	610,536	(610,536)
Total operating expenses	<u>2,620,010</u>	<u>2,991,453</u>	<u>(371,443)</u>
Operating income (loss)	<u>246,730</u>	<u>(121,860)</u>	<u>368,590</u>
Nonoperating revenues (expenses):			
Investment earnings	9,000	13,767	(4,767)
Other	24,920	19,428	5,492
Interest expense	(379,850)	(139,107)	(240,743)
Total nonoperating revenue (expenses)	<u>(345,930)</u>	<u>(105,912)</u>	<u>(240,018)</u>
Income (loss) before contributions and transfers	<u>\$ (99,200)</u>	<u>\$ (227,772)</u>	<u>\$ 128,572</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, 2011

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating revenues:			
Sewer charges - Residential	\$ 1,180,930	\$ 1,168,665	\$ 12,265
Sewer charges - Commercial	321,730	373,559	(51,829)
Sewer charges - Industrial	154,850	209,734	(54,884)
Other revenues	(6,000)	(15,308)	9,308
Total operating revenues	<u>1,651,510</u>	<u>1,736,650</u>	<u>(85,140)</u>
Operating expenses:			
System operations	1,869,220	1,628,205	241,015
Payment in lieu of franchise fee	75,000	87,228	(12,228)
Depreciation and amortization	-	556,715	(556,715)
Total operating expenses	<u>1,944,220</u>	<u>2,272,148</u>	<u>(327,928)</u>
Operating income (loss)	<u>(292,710)</u>	<u>(535,498)</u>	<u>242,788</u>
Nonoperating revenues (expenses):			
Investment earnings	6,000	10,708	(4,708)
Other	159,240	106,471	52,769
Interest expense	(513,340)	(163,560)	(349,780)
Total nonoperating revenue (expenses)	<u>(348,100)</u>	<u>(46,381)</u>	<u>(301,719)</u>
Income (loss) before contributions and transfers	<u>\$ (640,810)</u>	<u>\$ (581,879)</u>	<u>\$ (58,931)</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, 2011

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating revenues:			
Sales - Residential	\$ 4,766,880	\$ 4,380,861	\$ 386,019
Sales - Commercial	1,956,670	2,148,587	(191,917)
Sales - Interruptible	7,977,430	5,643,313	2,334,117
Other revenues	(10,000)	(4,868)	(5,132)
Total operating revenues	<u>14,690,980</u>	<u>12,167,893</u>	<u>2,523,087</u>
Operating expenses:			
Purchased power and natural gas	11,712,170	8,951,123	2,761,047
System operations	1,366,460	1,252,743	113,717
Payment in lieu of franchise fee	734,000	673,548	60,452
Depreciation and amortization	-	495,706	(495,706)
Total operating expenses	<u>13,812,630</u>	<u>11,373,120</u>	<u>2,439,510</u>
Operating income (loss)	<u>878,350</u>	<u>794,773</u>	<u>83,577</u>
Nonoperating revenues (expenses):			
Investment earnings	41,000	61,188	(20,188)
Other	20,000	12,540	7,460
Interest expense	(278,390)	(95,374)	(183,016)
Total nonoperating revenue (expenses)	<u>(217,390)</u>	<u>(21,646)</u>	<u>(195,744)</u>
Income (loss) before contributions and transfers	<u>\$ 660,960</u>	<u>\$ 773,127</u>	<u>\$ (112,167)</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
Solid Waste Management
For the Year Ended June 30, 2011

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating revenues:			
Collection fees	\$ 644,650	\$ 632,852	\$ 11,798
Other revenues - net of bad debts	(6,500)	(7,009)	509
Total operating revenues	<u>638,150</u>	<u>625,843</u>	<u>12,307</u>
Operating expenses:			
System operations	675,460	667,940	7,520
Payment in lieu of franchise fee	29,400	29,604	(204)
Depreciation and amortization	-	113,117	(113,117)
Total operating expenses	<u>704,860</u>	<u>810,661</u>	<u>(105,801)</u>
Operating income (loss)	<u>(66,710)</u>	<u>(184,818)</u>	<u>118,108</u>
Nonoperating revenues (expenses):			
Investment earnings	-	392	(392)
Interest expense	(122,560)	(17,600)	(104,960)
Total nonoperating revenue (expenses)	<u>(122,560)</u>	<u>(17,208)</u>	<u>(105,352)</u>
Income (loss) before contributions and transfers	<u>\$ (189,270)</u>	<u>\$ (202,026)</u>	<u>\$ 12,756</u>

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

City of Union, South Carolina
Statement of Assets & Liabilities - Agency Funds
Fiduciary Funds
June 30, 2011

	<u>Police Seizure Agency Fund</u>
ASSETS	
Currents assets:	
Cash and cash equivalents	\$ 32,680
Receivables (net of allowance for uncollectibles)	<u>-</u>
Total current assets	<u>32,680</u>
Total assets	<u><u>\$ 32,680</u></u>
 LIABILITIES	
Current liabilities:	
Accounts payable	<u>\$ 32,680</u>
Total current liabilities	<u>32,680</u>
Total liabilities	<u><u>\$ 32,680</u></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, 2011

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

Fines Collected & Retained	\$ 105,987
Assessments/Surcharges/Pullouts Collected	136,852
Assessments Retained For Victims Rights Assistance	9,833
Surcharges Retained For Victims Rights Assistance	9,412
Assessments/Surcharges/Pullouts Remitted	117,607
FY 2011 Expenditures For Victims Rights Assistance	44,625
6-30-2011 Fund Balance Restricted For Victims Rights Assistance	-0-

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

City of Union, South Carolina
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year Ended June 30, 2011

Federal Grantor/Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Cash Accrued or (Deferred) Revenue At July 1, 2010	Receipts or Revenue Recognized	Disbursements/ Expenditures	Cash Accrued or (Deferred) Revenue At June 30, 2011
<u>U.S. Department of Housing and Urban Development</u>							
<u>CDBG States Programs</u>							
Passed through SC Dept of Commerce – Grants Administration							
Buffalo Sewer Improvements – Phase II	14.228	4-CI-09-020	\$500,000	\$ -	\$ 291,269	\$ 291,269	\$ -
Union & Excelsior Villages Sewer Improvements	14.228	4-CI-10-028	\$500,000	\$ -	\$ 125,986	\$ 125,986	\$ -
Total Department of Housing and Urban Development				\$ -	\$ 417,255	\$ 417,255	\$ -
<u>U.S. Department of Justice</u>							
<u>Office of Justice Programs – Bureau of Justice Assistance (JAG)</u>							
Edward Byrne Memorial Justice Assistance Grant Program – Pass through South Carolina Department of Public Safety Office of Justice Programs							
Criminal Justice Information and Reporting Systems	16.738	1G10020	\$23,180	\$ -	\$ 22,947	\$ 22,947	\$ -
Total U.S. Department of Justice				\$ -	\$ 22,947	\$ 22,947	\$ -
<u>U.S. Department of Transportation</u>							
<u>Highway Planning & Construction</u>							
Pass through SCDOT Transportation Enhancement Program							
Rice Avenue Trail Phase I Project	20.205	ENH 24-08 PIN37310	\$94,958	\$ -	\$ 94,958	\$ 94,958	\$ -
Total U.S. Department of Transportation				\$ -	\$ 94,958	\$ 94,958	\$ -
Total Federal Assistance				\$ -	\$ 535,160	\$ 535,160	\$ -

Notes

1. This Schedule of Expenditures of Federal Awards includes all federal grant activity of the City of Union, SC received directly and those passed through from other agencies.
2. This schedule is prepared using the same significant accounting policies used to prepare the basic financial statements as reported in Note 1 of the financial statements and with requirement of OMB Circular A-133.

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

CITY OF UNION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011

There were no audit findings in the prior year.

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

CITY OF UNION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

SUMMARY OF AUDITOR'S RESULTS

Financial Statements:

1. The auditor's report expresses an unqualified opinion on the financial statements of the City of Union, SC, for the fiscal year ended June 30, 2011.
2. No material weaknesses and no significant deficiencies that were not considered to be material weaknesses in internal control were disclosed during the audit of the financial statements of the City of Union, SC.
3. No audit findings no instances of noncompliance material to the financial statements of the City of Union, SC, were disclosed during the audit of the financial statements of the City of Union, SC.

Federal Awards:

4. The auditor's report on compliance for the major federal award programs for the City of Union, SC, expresses an unqualified opinion on all major federal programs.
5. No material weaknesses and no significant deficiencies that were not considered to be material weaknesses in internal control over major federal programs were disclosed during the audit of the financial statements of the City of Union, SC.
6. No audit findings or instances of noncompliance over major federal programs material to the financial statements of the City of Union, SC, were disclosed during the audit of the financial statements of the City of Union, SC.
7. The audit disclosed no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133. .
8. The City had two type A programs identified as major programs.

The programs tested as major programs were:

US HUD Buffalo Sewer Improvements Phase II - CDBG 4-CI-09-020 - CFDA #14.228
US HUD Union & Excelsior Villages Sewer Impr. - CDBG 4-CI-10-028 - CFDA #14.228

9. The threshold for distinguishing Types A and B programs was \$300,000.
10. The City did not qualify as a low-risk auditee.
11. There were no prior audit findings; therefore, no Summary Schedule of Prior Audit Findings has been prepared

Findings:

Significant Control Deficiencies – Federal Awards Audit:

None disclosed.

Significant Control Deficiencies – Financial Statement Audit:

None disclosed.

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

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Terry R. FANT, P.A.
CERTIFIED PUBLIC ACCOUNTANT
309 WEST MAIN STREET
Union, SC 29379
864-427-4736

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENTAL AUDIT STANDARDS*

To the City Council
City of Union, South Carolina

I have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Union, South Carolina, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements and have issued my report thereon dated November 30, 2011. 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 as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Union's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City of Union's internal control over financial reporting.

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

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as described above.

COMPLIANCE AND OTHER MATTERS

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 agencies and is not intended to be and should not be used by anyone other than these specified parties.

Terry R. Fant

Terry R. Fant, CPA, PA
November 30, 2011

Terry R. FANT, P.A.
CERTIFIED PUBLIC ACCOUNTANT
309 WEST MAIN STREET
Union, SC 29379
864-427-4736

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE REQUIREMENTS THAT COULD HAVE A
DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the City Council
City of Union, South Carolina

COMPLIANCE

I have audited the compliance of the City of Union, SC, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the City of Union's major federal programs for the year ended June 30, 2011. The City of Union's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Union, SC's management. My responsibility is to express an opinion on the City of Union, SC's compliance based on my audit.

I conducted my audit in of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Union, SC's compliance with those requirements and performing such other procedures as I consider necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinions. My audit does not provide a legal determination of the City of Union, SC's compliance with those requirements.

In my opinion, the City of Union, SC, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2011.

INTERNAL CONTROL OVER COMPLIANCE

Management of the City of Union, SC, is responsible for establishing and maintaining effective internal control over compliance with the required laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered the City of Union's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for expressing an opinion on the effectiveness internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the City of Union, SC's internal control over compliance .

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

My consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above.

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 agencies and is not intended to be and should not be used by anyone other than these specified parties.


Terry R. Fant, CPA, PA
November 30, 2011

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STATISTICAL SECTION

This part of the City of Union’s annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government’s overall financial health.

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Financial Trends	93-98
These schedules contain trend information to help the reader understand how the government’s financial performance and well-being have changed over time.	
Revenue Capacity	99-106
These schedules contain information to help the reader assess the governments most significant local revenue source, utility system receipts. Additional data is presented on property tax revenue, the most significant general fund revenue source and a traditional revenue source and a traditional revenue source of readers of this report.	
Debt Capacity	107-108
These schedules present information to help the reader assess the affordability of the government’s current levels of outstanding debt and the government’s ability to issue additional debt in the future.	
Demographic and Economic Information	109
These schedules offer demographic and economic indicators to help the reader understand the environment within which the government’s financial activities take place.	
Operating Information	110-111
These schedules contain service and infrastructure data to help the reader understand the environment within which the government’s financial activities take place.	

Sources: Unless otherwise noted, the information in these schedules is derived from the annual financial reports for the relevant year.

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City of Union
Net Assets by Component
Last Nine Fiscal Years

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Governmental activities									
Invested in capital assets, net of related debt	\$ 1,777,989	\$ 1,785,034	\$ 2,221,625	\$ 2,408,254	\$ 2,829,986	\$ 2,745,334	\$ 1,298,016	\$ 789,457	\$ 920,387
Restricted	3,040,566	3,149,136	2,871,330	381,756	538,138	485,223	3,038,050	4,909,251	6,205,317
Unrestricted	4,730,717	4,903,010	5,464,973	7,411,696	7,645,782	8,130,493	6,443,452	5,179,917	4,083,016
Total governmental activities net assets	\$ 9,549,282	\$ 9,837,180	\$ 10,557,928	\$ 10,201,706	\$ 11,013,906	\$ 11,361,050	\$ 10,779,518	\$ 10,878,625	\$ 11,208,720
Business-type activities									
Invested in capital assets, net of related debt	\$ 38,318,005	\$ 40,049,283	\$ 40,974,286	\$ 42,129,651	\$ 44,506,072	\$ 45,806,442	\$ 48,338,314	\$ 48,741,936	\$ 48,015,063
Restricted	677,394	679,822	860,308	911,242	908,217	928,374	1,184,860	1,381,878	1,743,995
Unrestricted	12,546,788	12,900,439	13,748,688	14,250,847	13,061,807	12,265,853	8,812,412	10,276,095	11,079,329
Total business-type activities net assets	\$ 51,542,187	\$ 53,629,544	\$ 55,583,282	\$ 57,291,740	\$ 58,476,096	\$ 59,000,669	\$ 58,335,586	\$ 60,399,909	\$ 60,838,387
Primary Government									
Invested in capital assets, net of related debt	\$ 40,096,004	\$ 41,834,317	\$ 43,195,911	\$ 44,537,905	\$ 47,336,058	\$ 48,551,776	\$ 49,636,330	\$ 49,531,393	\$ 48,935,450
Restricted	3,717,960	3,828,958	3,731,638	1,292,988	1,445,355	1,413,597	4,222,910	6,291,129	7,949,312
Unrestricted	17,277,505	17,803,449	19,213,661	21,662,543	20,707,589	20,396,346	15,255,864	15,456,012	15,162,345
Total primary government net assets	\$ 61,091,469	\$ 63,466,724	\$ 66,141,210	\$ 67,493,446	\$ 69,490,002	\$ 70,361,719	\$ 69,115,104	\$ 71,278,534	\$ 72,047,107

City of Union
Changes in Net Assets
Last Nine Fiscal Years

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Expenses									
Governmental activities:									
General government	\$1,503,972	\$1,405,868	\$1,706,911	\$2,234,430	\$1,837,449	\$2,293,952	\$3,036,482	\$1,401,406	\$1,439,935
Tax and License	116,642	117,137	108,944	111,071	93,425	65,702	0	0	0
Facilities maintenance	104,396	64,639	87,838	145,602	110,486	96,411	72,315	62,449	63,507
Public safety	2,431,603	2,358,254	2,498,566	3,358,993	2,782,769	2,974,860	3,108,049	3,214,795	2,943,617
Public service	585,460	534,731	582,095	418,417	531,704	516,949	528,259	576,833	776,336
Planning	205,409	199,772	180,088	207,354	242,637	318,446	271,890	213,418	213,855
Interest on long-term debt	0	0	15,151	16,880	16,748	12,393	7,738	0	0
Total governmental activities expenses	<u>4,947,482</u>	<u>4,680,401</u>	<u>5,179,593</u>	<u>6,492,747</u>	<u>5,615,218</u>	<u>6,278,613</u>	<u>7,024,733</u>	<u>5,468,901</u>	<u>5,437,250</u>
Business-type activities									
Solid waste management	748,861	763,080	693,412	816,467	853,546	810,565	828,676	820,127	828,261
Combined utilities	30,684,315	30,680,018	31,822,671	37,949,502	34,687,650	36,633,954	35,799,271	31,720,190	30,977,702
Total business type activities expenses	<u>31,433,176</u>	<u>31,443,098</u>	<u>32,516,083</u>	<u>38,765,969</u>	<u>35,541,196</u>	<u>37,444,519</u>	<u>36,627,947</u>	<u>32,540,317</u>	<u>31,805,963</u>
Total primary government expenses	<u>\$36,380,658</u>	<u>\$36,123,499</u>	<u>\$37,695,676</u>	<u>\$45,258,716</u>	<u>\$41,156,414</u>	<u>\$43,723,132</u>	<u>\$43,652,680</u>	<u>\$38,009,218</u>	<u>\$37,243,213</u>
Program Revenues									
Governmental activities:									
Charges for services:									
Public safety	\$235,643	\$250,587	\$245,805	\$215,442	\$257,787	\$294,379	\$338,317	\$256,395	\$180,892
Planning	41,930	24,487	30,107	25,880	38,849	57,575	22,863	22,335	28,985
Operating grants and contributions	234,427	34,480	68,168	837,395	13,137	12,513	12,022	13,613	14,494
Capital grants and contributions	248,094	144,013	233,718	60,019	843,440	846,349	599,900	231,148	339,162
Total governmental activities program revenues	<u>760,094</u>	<u>453,567</u>	<u>577,798</u>	<u>1,138,736</u>	<u>1,153,213</u>	<u>1,210,816</u>	<u>973,122</u>	<u>523,491</u>	<u>563,533</u>
Business-type activities:									
Charges for services-solid waste mgt.	642,027	726,699	728,629	736,429	735,145	731,995	588,504	537,689	625,842
Charges for services-combined utilities	32,358,392	32,328,240	33,197,265	38,969,242	35,186,539	35,989,143	33,669,101	33,416,702	31,356,231
Capital grants and contributions	753,794	0	37,300	43,668	36,140	594,470	1,296,379	279,619	417,256
Total business-type activities program revenues	<u>33,754,213</u>	<u>33,054,939</u>	<u>33,963,194</u>	<u>39,749,339</u>	<u>35,957,824</u>	<u>37,315,608</u>	<u>35,553,984</u>	<u>34,234,010</u>	<u>32,399,329</u>
Total primary government program revenues	<u>\$34,514,307</u>	<u>\$33,508,506</u>	<u>\$34,540,992</u>	<u>\$40,888,075</u>	<u>\$37,111,037</u>	<u>\$38,526,424</u>	<u>\$36,527,106</u>	<u>\$34,757,501</u>	<u>\$32,962,862</u>

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Net (expense)/revenue									
Governmental activities	-\$4,187,388	-\$4,226,834	-\$4,601,797	-\$5,354,011	-\$4,462,005	-\$5,067,797	-\$6,051,610	-\$4,945,410	-\$4,873,717
Business-type activities	2,321,037	1,611,841	1,447,111	983,368	416,629	-128,912	-1,073,964	1,693,692	593,366
Total primary government net expense	<u>-\$1,866,351</u>	<u>-\$2,614,993</u>	<u>-\$3,154,686</u>	<u>-\$4,370,643</u>	<u>-\$4,045,376</u>	<u>-\$5,196,709</u>	<u>-\$7,125,574</u>	<u>-\$3,251,718</u>	<u>-\$4,280,351</u>
General Revenues and Other Changes in Net Assets									
Governmental activities:									
Property taxes	\$1,068,992	\$1,069,258	\$1,038,276	\$1,060,247	\$1,115,319	\$1,178,150	\$1,202,275	\$1,061,709	\$1,084,836
Fee in lieu of property taxes	1,439,855	1,511,686	1,729,772	1,692,718	1,988,390	1,768,358	1,842,468	1,732,317	1,692,755
Local hospitality and accommodations tax									135,174
Other taxes	440,074	435,066	458,684	467,093	498,323	520,653	504,495	448,936	399,302
Occupational Licenses and Franchise Fees	868,426	905,822	1,007,812	1,039,364	1,158,550	1,307,014	1,170,093	1,077,523	1,207,433
Miscellaneous	2,110,249	50,600	126,456	98,642	99,670	115,083	211,632	216,789	274,606
Unrestricted investment earnings	97,951	84,598	115,359	161,537	150,580	145,215	134,640	68,905	38,618
Intergovernmental revenue	599,809	519,916	554,812	553,190	543,373	510,468	534,474	568,338	501,089
Special Item-L-term notes rec- Flynn Bldg	575,000								
Contributed Capital				55,000					
Transfers	1,037,829	-58,328	-130,000	-130,000	-260,000	-130,000	-130,000	-130,000	-130,000
Total governmental activities	<u>8,238,185</u>	<u>4,518,618</u>	<u>4,901,171</u>	<u>4,997,791</u>	<u>5,274,205</u>	<u>5,414,941</u>	<u>5,470,077</u>	<u>5,044,517</u>	<u>5,203,813</u>
Business-type activities:									
Interest revenue	308,451	254,434	376,627	595,090	637,728	523,485	278,881	240,631	136,709
Loss on sale of capital assets									-421,598
Transfers	-427,790	221,082	130,000	130,000	130,000	130,000	130,000	130,000	130,000
Total business-type activities	<u>-119,339</u>	<u>475,516</u>	<u>506,627</u>	<u>725,090</u>	<u>767,728</u>	<u>653,485</u>	<u>408,881</u>	<u>370,631</u>	<u>-154,889</u>
Total primary government	<u>8,118,846</u>	<u>4,994,134</u>	<u>5,407,798</u>	<u>5,722,881</u>	<u>6,041,933</u>	<u>6,068,426</u>	<u>5,878,958</u>	<u>5,415,148</u>	<u>5,048,924</u>
Changes in Net Assets									
Government activities	4,050,797	291,784	299,374	-356,220	812,200	347,144	-581,533	99,107	330,096
Business-type activities	2,201,698	2,087,357	1,953,738	1,708,458	1,184,357	524,573	-665,083	2,064,323	438,477
Total primary government	<u>\$6,252,495</u>	<u>\$2,379,141</u>	<u>\$2,253,112</u>	<u>\$1,352,238</u>	<u>\$1,996,557</u>	<u>\$871,717</u>	<u>-\$1,246,616</u>	<u>\$2,163,430</u>	<u>\$768,573</u>

City of Union
Governmental Activities Tax Revenues By Source
Last Ten Fiscal Years
(modified accrual basis of accounting)

Fiscal YEAR	GENERAL FUND PROPERTY TAX	TAX INCREMENT BOND PROPERTY TAX	TOTAL PROPERTY TAX
2002	1,029,020	78,906	1,107,926
2003	983,772	59,315	1,043,087
2004	996,584	76,597	1,073,181
2005	963,913	70,517	1,034,430
2006	968,123	92,592	1,060,715
2007	982,945	102,739	1,085,684
2008	983,468	103,161	1,086,629
2009	998,421	95,470	1,093,891
2010	972,541	117,729	1,090,270
2011	980,570	103,093	1,083,663

City of Union
Fund Balances of Governmental Funds
Last Ten Fiscal Years

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General fund										
Unrestricted	\$2,359,453	\$2,149,842	\$2,359,138	\$2,929,455	\$3,198,716	\$3,690,140	\$3,326,176	\$3,418,580	\$3,359,751	\$3,593,108
Total general fund	<u>2,359,453</u>	<u>2,149,842</u>	<u>2,359,138</u>	<u>2,929,455</u>	<u>3,198,716</u>	<u>3,690,140</u>	<u>3,326,176</u>	<u>3,418,580</u>	<u>3,359,751</u>	<u>3,593,108</u>
All other governmental funds										
Restricted:										
Local Hospitality and Accomodations	0	0	0	0	0	0	0	0	0	101,638
Insurance proceeds	0	1,996,021	2,042,836	2,096,434	1,156,221	868,871	893,738	929,160	943,533	0
Tax increment distict	7,148	33,928	9,064	30,299	63,290	65,035	119,219	114,668	883,472	630
Drug account	15,022	8,779	3,138	6,510	6,545	4,585	4,613	4,614	4,623	6,023
Victim's rights advocate	3,872	8,858	31,324	34,874	39,591	24,845	24,595	35,754	26,163	-887
Community Change	23,935	27,123	29,190	24,286	21,312	16,289	11,866	7,361	24,559	25,761
PMPA	0	0	0	0	16,460	-89	18,665	27,245	11,055	19,741
Sidewalk	0	0	0	0	0	0	49,575	31,941	26,209	25,521
Grants	6,929	0	0	0	105,000	-70,841	0	0	-6,827	-68,546
C Funds	0	-13,718	-1,485	0	0	0	0	0	0	-1,127
Economic development	637,425	2,424,069	2,515,829	2,565,134	2,611,800	2,579,339	2,630,408	2,838,114	2,985,316	3,194,303
Union Events Center	0	0	0	0	0	0	0	0	0	1,830,108
Firemen's fund	3,112	3,916	9,871	10,054	10,957	10,537	9,821	5,599	4,320	4,117
Capital projects	254,084	497,985	450,157	54,415	21,496	4,692	0	0	0	0
Total all other governmental funds	<u>951,527</u>	<u>4,986,961</u>	<u>5,089,924</u>	<u>4,822,006</u>	<u>4,052,672</u>	<u>3,503,263</u>	<u>3,762,520</u>	<u>3,994,456</u>	<u>4,902,423</u>	<u>5,137,282</u>
Total all governmental funds	\$3,310,980	\$7,136,803	\$7,449,062	\$7,751,461	\$7,251,388	\$7,193,403	\$7,088,696	\$7,413,036	\$8,262,174	\$8,730,390

City of Union
Changes in Fund Balances of Governmental Funds
Last Nine Fiscal Years

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Revenues									
Taxes	\$1,043,087	\$1,073,181	\$1,034,430	\$1,060,715	\$1,085,684	\$1,086,629	\$1,093,891	\$1,090,270	\$1,083,663
Fee in lieu of taxes	1,439,855	1,511,686	1,729,772	1,692,718	1,968,390	1,768,358	1,842,468	1,732,317	1,692,755
Local hospitality and accommodations tax	0	0	0	0	0	0	0	0	135,174
Licenses, permits and franchise fees	910,356	930,309	1,037,919	1,065,245	1,197,399	1,364,589	1,192,977	1,132,126	1,268,967
Fines and forfeitures	117,898	129,636	122,132	96,729	120,149	107,621	136,720	117,307	111,222
Intergovernmental	1,200,134	819,360	980,371	1,569,317	1,120,739	1,654,065	1,666,863	952,186	924,414
State collected revenues	440,074	435,066	458,684	467,093	498,323	520,653	504,495	448,936	399,302
Investment earnings	97,951	84,598	115,359	161,537	150,580	145,215	134,640	68,906	38,618
Miscellaneous	2,110,249	50,601	126,456	98,641	99,670	115,083	211,632	216,789	274,606
Total revenues	7,359,544	5,034,437	5,605,123	6,211,995	6,240,934	6,762,213	6,783,686	5,758,637	5,928,721
Expenditures									
General government	1,191,046	1,062,733	1,584,470	2,137,899	1,785,053	2,241,556	1,706,859	1,280,247	1,283,266
Taxes and licenses	116,642	117,137	108,944	111,071	93,425	65,702	0	0	0
Facilities Maintenance	81,744	64,639	87,838	142,979	104,586	94,144	67,308	62,449	63,507
Public Safety	2,283,243	2,285,674	2,457,559	3,230,131	2,645,486	2,866,344	2,960,766	2,819,134	2,739,922
Public service	428,448	382,743	446,708	359,748	417,914	475,141	498,462	548,310	531,609
Planning	200,618	193,573	178,655	207,354	242,268	313,392	264,241	202,862	206,414
Capital outlay	797,927	508,600	246,238	585,452	640,846	571,312	1,091,069	791,452	1,190,531
Debt Service									
Principal	26,942	30,674	46,669	56,671	92,047	96,959	102,890	146,157	91,737
Interest	19,939	18,074	15,640	17,396	17,293	12,373	7,751	29,087	96,519
Total expenditures, including capital	5,146,549	4,663,847	5,172,721	6,848,701	6,038,918	6,736,923	6,699,346	5,879,698	6,203,505
Excess of revenues over (under) expenditures	2,212,995	370,590	432,402	-636,706	202,016	25,290	84,340	-120,861	-274,784
Other financing sources (uses)									
Contributed capital		36374		55000					
Loan and lease purchase proceeds		0		211,635					
Transfer- in (Out)	-130,000	-94,702	-130,000	-130,000	-260,000	-130,000	370,000	1,100,000	873,000
Total other financing sources (uses)	-130,000	-94,702	-130,000	136,635	-260,000	-130,000	240,000	970,000	743,000
Net change in fund balances	\$2,082,995	\$312,262	\$302,402	-\$500,071	-\$57,984	-\$104,710	\$324,340	\$849,139	\$468,216
Debt service as a percentage of noncapital expenditures	1.1%	1.2%	1.3%	1.2%	2.1%	1.8%	2.0%	3.6%	3.9%

**City of Union
Utility Enterprise System Operating Revenues By Source
Last Ten Fiscal Years**

Fiscal Year	Electric Receipts	Percent of Total	Water Receipts	Percent of Total	Sewer Receipts	Percent of Total	Gas Receipts	Percent of Total	Other Operating Revenue	Percent of Total	Total Combined Public Utility Operating Revenue
2002	12,166,830	43.9%	2,414,162	8.7%	1,533,811	5.5%	11,482,729	41.4%	136,728	0.5%	27,734,260
2003	13,014,439	40.6%	2,644,414	8.2%	1,649,773	5.1%	14,672,945	45.7%	100,872	0.3%	32,082,443
2004	12,674,452	39.7%	2,488,807	7.8%	1,462,441	4.6%	15,324,902	48.0%	-26,245	-0.1%	31,924,357
2005	12,400,828	37.8%	2,527,333	7.7%	1,597,563	4.9%	16,394,845	49.9%	-95,861	-0.3%	32,824,708
2006	13,265,237	34.6%	2,779,680	7.3%	1,736,476	4.5%	20,562,347	53.6%	-12,801	0.0%	38,330,939
2007	13,392,884	38.6%	2,815,313	8.1%	1,687,965	4.9%	16,833,343	48.5%	-14,122	0.0%	34,715,383
2008	13,183,492	37.0%	3,013,014	8.5%	1,712,302	4.8%	17,716,145	49.8%	-19,264	-0.1%	35,605,689
2009	13,402,927	39.8%	2,857,173	8.5%	1,616,440	4.8%	15,837,563	47.0%	-29,543	-0.1%	33,684,560
2010	14,603,775	44.8%	2,789,237	8.6%	1,732,367	5.3%	13,433,800	41.2%	54,635	0.2%	32,613,814
2010	14,290,390	46.1%	2,873,486	9.3%	1,751,958	5.7%	12,172,761	39.3%	-84,932	-0.3%	31,003,663

City of Union
Solid Waste Management Fund- Operating Revenues By Source
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Collection Fees</u>
2002	643,354
2003	642,027
2004(1)	726,699
2005	728,629
2006	736,429
2007	735,145
2008	731,995
2009(2)	588,504
2010	589,010
2011(3)	632,852

(1) Fees increased from \$13 to \$15 per month.

(2) Fees decrease from \$15 to \$12 per month.

(3) For Fiscal Year 2011 fees have been increased to \$13 per month.

City of Union
Electric Largest User
For the Year Ended June 30, 2011

<u>USER NAME</u>	<u>USER SERVICE OR BUSINESS</u>	<u>FISCAL YEAR 2011 CONSUMPTION-KWh</u>	<u>FISCAL YEAR 2011 BILLED REVENUES</u>	<u>% of Total 2011 Billed Revenue</u>
HAEMONETICS	CHEMICAL	6,203,615	\$378,239	2.65%
WALLACE THOMSON HOSP	HOSPITAL	5,734,709	358,136	2.51%
UNION COUNTY SCHOOLS	EDUCATION	4,211,530	296,397	2.07%
WAL-MART #01-0629	STORE	3,827,280	231,005	1.62%
BI-LO #167	GROCERY	1,805,298	112,385	0.79%
UNION COUNTY SUPERVISOR	GOVERNMENT	1,786,291	155,655	1.09%
FOOD LION #2679	GROCERY	1,702,680	105,972	0.74%
SPECTRA COLORANTS, INC.	TEXTILE	1,462,680	103,239	0.72%
PALM FOOD STORES LLC	CONVENIENCE STORE	<u>1,369,903</u>	<u>124,184</u>	<u>0.87%</u>
TOTAL LARGEST USER		<u>28,103,986</u>	<u>\$1,865,212</u>	
TOTAL AUDITED REVENUE FOR FISCAL YEAR 2011			<u>\$14,290,390</u>	

(1) Source: City of Union utility records. Excludes utility billing records for City of Union owned property.

City of Union
Water Largest User
For the Year Ended June 30, 2011

<u>USER NAME</u>	<u>USER SERVICE OR BUSINESS</u>	<u>FISCAL YEAR 2011 CONSUMPTION-GAL</u>	<u>FISCAL YEAR 2011 BILLED REVENUES</u>	<u>% of Total 2011 Billed Revenue</u>
MEANSVILLE-RILEY W DIST	WATER DISTRICT	136,641,300	\$335,286	11.67%
BROWNS CREEK WATER DIST	WATER DISTRICT	102,503,800	251,017	8.74%
SANTUC-HEBRON WATER DIST	WATER DISTRICT	82,935,300	203,434	7.08%
ROCKY CREEK WATER DIST	WATER DISTRICT	70,065,600	171,903	5.98%
STANDARD TEXTILE COMPANY	TEXTILE	31,138,100	89,079	3.10%
CEDAR HILL PLANT	TEXTILE	26,799,100	77,561	2.70%
THE TIMKEN COMPAN	BEARINGS	17,179,400	53,818	1.87%
TOWN OF CARLISLE	WATER DISTRICT	15,194,500	37,469	1.30%
UNION COUNTY SCHOOLS	EDUCATION	<u>13,546,000</u>	<u>38,375</u>	<u>1.34%</u>
TOTAL LARGEST USER		<u>496,003,100</u>	<u>\$1,257,942</u>	
TOTAL AUDITED REVENUE FOR FISCAL YEAR 2011			<u>\$2,873,486</u>	

(1) Source: City of Union utility records. Excludes utility billing records for City of Union owned property.

City of Union
Sewer Largest User
For the Year Ended June 30, 2011

<u>USER NAME</u>	<u>USER SERVICE OR BUSINESS</u>	<u>FISCAL YEAR 2011 CONSUMPTION-GAL</u>	<u>FISCAL YEAR 2011 BILLED REVENUES</u>	<u>% of Total 2011 Billed Revenue</u>
STANDARD TEXTILE COMPANY	TEXTILE	21,891,600	\$79,876	4.61%
THE TIMKEN CO	BEARINGS	9,497,200	42,348	2.44%
CEDAR HILL PLANT	TEXTILE	7,422,600	33,136	1.91%
WALLACE THOMSON HOSPITAL	HOSPITAL	6,898,500	12,012	0.69%
UNION COUNTY SCHOOLS	EDUCATION	6,116,400	25,154	1.45%
PREMIER COLORS INC	CHEMICAL	5,790,100	17,259	1.00%
BOYD MANAGEMENT	RESIDENTIAL PROPERTY	4,378,400	23,682	1.37%
FENDRICH INDUSTRIES, INC	TEXTILE	4,253,400	19,065	1.10%
OAKMONT OF UNION	RESIDENTIAL CARE CENTER	4,055,600	12,124	0.70%
UNION COUNTY SUPERVISOR	GOVERNMENT	<u>3,950,500</u>	<u>17,547</u>	1.01%
TOTAL LARGEST USER		<u>74,254,300</u>	<u>\$282,203</u>	
TOTAL AUDITED REVENUE FOR FISCAL YEAR 2011			<u>\$1,732,367</u>	

(1) Source: City of Union utility records. Excludes utility billing for the City of Union owned property.

City of Union
 Natural Gas Largest User
 For the Year Ended June 30, 2011

<u>USER NAME</u>	<u>USER SERVICE OR BUSINESS</u>	<u>FISCAL YEAR 2011 CONSUMPTION-CCF</u>	<u>FISCAL YEAR 2011 BILLED REVENUES</u>	<u>% of Total 2011 Billed Revenue</u>
KOHLER CO	CERAMIC FIXTURES	3,926,870	\$1,912,343	15.71%
BASF WYANDOTTE CORP.	CHEMICAL	1,854,260	1,186,816	9.75%
THE TIMKEN CO	BEARINGS	1,716,820	1,096,728	9.01%
STANDARD TEXTILE COMPANY	TEXTILES	1,019,794	580,461	4.77%
GEORGIA PACIFIC-SHARED CT	PAPER PRODUCTS	517,980	331,985	2.73%
CEDAR HILL PLANT	TEXTILES	465,840	300,296	2.47%
HAEMONETICS	PHARMACEUTICAL	370,750	402,229	3.30%
WALLACE THOMSON HOSP	HOSPITAL	217,411	142,404	1.17%
SLOAN CONSTRUCTION	ASPHALT	174,436	174,364	1.43%
MILLIKEN PLANT	TEXTILES	<u>151,890</u>	<u>96,508</u>	<u>0.79%</u>
TOTAL LARGEST USER		<u>10,416,051</u>	<u>\$6,224,134</u>	
TOTAL AUDITED REVENUE FOR FISCAL YEAR 2011			<u>\$12,172,761</u>	

(1) Source: City of Union utility records. Excludes utility billing records for City of Union owned property.

**City of Union
Property Tax Rates
Direct and Overlapping Governments
Last Ten Fiscal Years**

Fiscal Year	City of Union			Union County			Union County School District			Total Direct & Overlapping Rates	
	Operating Millage	Debt Service Millage	Total City Millage	Operating Millage	Debt Service Millage	Total County Millage	Operating Millage	Debt Service Millage	Total School Millage		
2003	74.3	74.3	74.3	95.5	8.6	21.7	125.8	144.0	21.0	165.0	365.1
2004	74.3	74.3	74.3	95.5	8.6	21.7	125.8	150.3	14.7	165.0	365.1
2005	74.3	74.3	74.3	95.5	8.6	21.7	125.8	167.9	0.0	167.9	368.0
2006	74.3	74.3	74.3	97.5	6.6	24.7	128.8	167.9	0.0	167.9	371.0
2007	74.3	74.3	74.3	97.5	6.6	24.7	128.8	119.9	48.0	167.9	371.0
2008	74.3	74.3	74.3	104.2	4.0	24.7	132.9	119.9	48.0	167.9	375.1
2009	74.3	74.3	74.3	104.2	4.0	24.7	132.9	119.9	48.0	167.9	375.1
2010	74.3	74.3	74.3	104.2	4.0	24.7	132.9	119.9	48.0	167.9	375.1
2011	74.3	74.3	74.3	104.2	4.0	24.7	132.9	119.9	48.0	167.9	375.1

(1) Source: Union County Auditor

(2) Reassessment for 2010 Levy was delayed until 2011.

**CITY OF UNION, SOUTH CAROLINA
PRINCIPAL PROPERTY TAXPAYERS
NOVEMBER 30, 2010**

<u>TAXPAYER</u>	<u>TYPE OF BUSINESS</u>	<u>2010 TAXABLE ASSESSED VALUE</u>	<u>PERCENTAGE OF TOTAL ASSESSED</u>
1 WAL MART REAL ESTATE	COMMERCIAL	\$34,004.88	3.51%
2 BELLSOUTH TELECOM	COMMUNICATIONS	31,457.88	3.25%
3 HAEMONETICS CORP	INDUSTRIAL	27,543.01	2.84%
4 WINDSOR HILL COMPANY LLC	COMMERCIAL	12,816.75	1.32%
5 GRAHAM WILLIAM M	COMMERCIAL	9,427.93	0.97%
6 CHARTER COMMUNICATIONS	COMMUNICATIONS	7,587.52	0.78%
7 AT&T MOBILITY FKA CINGULAR	COMMUNICATIONS	7,583.80	0.78%
8 UNION ELDERLY HOUSING LP	RESIDENTIAL	6,995.35	0.72%
9 NISHANT ENTERPRISES ASSOCIATES, LLC	COMMERCIAL	6,952.99	0.72%
10 SYLVA HOLDINGS LLC	COMMERCIAL	6,882.41	0.71%
11 FAIRFOREST LTD PARTNERSHIP	RESIDENTIAL	6,843.77	0.71%
12 PROVIDENT COMMUNITY BANK	COMMERCIAL	6,728.60	0.69%
13 ARTHUR STATE BANK	COMMERCIAL	6,415.06	0.66%
14 4031 HCR PROP OAKMONT	RESIDENTIAL	6,298.41	0.65%
15 LAKEVIEW GARDENS LLC	RESIDENTIAL	5,932.86	0.61%
16 PREMIER COLORS INC	INDUSTRIAL	5,770.15	0.60%
17 BROWN EUGENIA A	RESIDENTIAL	5,710.71	0.59%
18 UNION SQUARE SHOPPING CTR	COMMERCIAL	5,661.66	0.58%
19 NORFOLK SOUTHERN	COMMERCIAL	5,513.06	0.57%
20 NEW BUENA VISTA APTS LLC	COMMERCIAL	5,502.66	0.57%
TOTAL OF LARGEST 20 TAXPAYERS		<u>\$211,629.46</u>	17.20%
TOTAL 2010 TAXABLE ASSESSED VALUE		<u>\$968,719.96 *</u>	100.00%

*INCLUDES HOMESTEAD EXEMPTION, EXCLUDES ABATEMENTS AND VEHICLES

**CITY OF UNION, SOUTH CAROLINA
COMPUTATION OF LEGAL DEBT MARGIN
JUNE 30, 2011**

Total assessed value – 2010-General fund	\$ 14,960,020
-Increment District	<u>269,400</u>
Debt limit – 8 percent of assessed value	\$ 14,690,620
Total amount of debt applicable to debt limit	<u>0</u>
Legal Debt Margin	\$ 1,175,250

Note: The City is authorized by the state statute to exceed the legal debt margin of 8%, if such additional debt is approved by the citizens of the City of Union, South Carolina.

**CITY OF UNION, SOUTH CAROLINA
REVENUE BOND COVERAGE - COMBINED UTILITY SYSTEM BONDS
LAST TEN FISCAL YEARS**

FISCAL YEAR	GROSS REVENUES (1)	OPERATING EXPENSES (2)(4)	NET REVENUES AVAILABLE FOR DEBT SERVICE	DEBT SERVICE REQUIREMENTS			TIMES COVERAGE
				PRINCIPAL	INTEREST	TOTAL	
2002	28,176,013	26,918,731	3,358,340	514,030	719,350	1,233,380	2.72
2003	32,666,845	28,305,444	4,361,401	560,119	701,101	1,261,220	3.46
2004	32,582,674	26,790,451	4,326,065	525,166	707,188	1,232,354	3.51
2005(4)	32,824,707	27,784,725	3,359,113	280,513	665,116	945,629	3.55
2006	39,571,484	33,966,968	5,604,516	640,073	538,222	1,178,295	4.76
2007	35,834,875	30,363,547	5,471,328	678,625	512,271	1,190,896	4.59
2008	36,529,208	32,337,943	4,191,265	707,519	484,977	1,192,496	3.51
2009	33,975,979	31,445,684	2,530,295	736,770	456,525	1,193,295	2.12
2010	33,656,302	27,448,119	6,208,183	746,422	423,378	1,169,800	5.31
2011	31,492,548	26,681,099	4,811,449	787,199	441,617	1,228,816	3.92

Note: (1) Total revenues (including investment earnings and other.)

(2) Operating and maintenance expenses excluding depreciation, interest expense and fee in lieu of franchise fee paid to General Fund.

(3) Minimum net revenue requirement per bond ordinance is 1.20%

(4) On December 28, 2004 the Series 1993 and 1994 bonds were refunded with a Series 2004 Bond.

**CITY OF UNION
PRINCIPAL EMPLOYERS
CURRENT YEAR**

2011			
EMPLOYER(1)	EMPLOYEES	RANK	PERCENTAGE OF TOTAL COUNTY ACTIVE EMPLOYMENT *
UNION COUNTY SCHOOL DISTRICT	675	1	7.14%
WALLACE THOMSON HOSPITAL	540	2	5.71%
DOLLAR GENERAL DISTRIBUTION	450	3	4.76%
TIMKEN	240	4	2.54%
S.C. STATE GOVERNMENT	230	5	2.43%
COUNTY OF UNION	227	6	2.40%
CARLISLE FINISHING PLANT	203	7	2.15%
MILLIKEN - CEDAR HILL PLANT	182	8	1.93%
GESTAMP SOUTH CAROLINA, LLC	135	10	1.43%
CITY OF UNION	126	11	1.33%
HAEMONETICS	117	12	1.24%
MILLIKEN - GILLESPIE PLANT	90	13	0.95%
SONOCO PRODUCTS	85	14	0.90%
LOCKHART POWER	60	15	0.63%

(1) Most employers are not within the City limits but are served by the City's utility system

* Labor force as of 10/2011 is total labor pool of 11,345 with 9,451 employed and 1894 unemployed resulting in an unemployment rate of 16.7%

Source: Union County Development Board

City of Union
Budgeted Full-time Equivalent City Government Employees By Function
Last Six Fiscal Years

CLASSIFICATION	FY2006 ADOPTED	FY2007 ADOPTED	FY2008 ADOPTED	FY2009 ADOPTED	FY2010 ADOPTED	FY2011 ADOPTED
LEGISLATIVE	9	9	9	9	9	9 (1)
CITY ADMINISTRATOR	0	0	0	0	0	0
CITY COURT	1	1	1	1	1	1
CITY ATTORNEY	1	1	1	1	1	1
TAX & LICENSE	2	2	1	0	0	0
THE UNION CONNECTION	0	0	0	2	2	4 (2)
PUBLIC SAFETY	38	38	39	42	41	41
PUBLIC SERVICE - STREET DEPT.	7	7	7	7	8	8
PUBLIC SERVICE - SOLID WASTE	9	9	8	7	7	7
BUILDING & ZONING	3	3	4	4	2	2 (3)
VEHICLE MAINTENANCE	4	4	4	4	4	4
ACCOUNTING	4	4	4	5	6	5 (4)
UTILITY BILLING	11	11	11	11	9	9
UTILITIES - ADMINISTRATION	3	3	3	3	3	3
UTILITIES - SUPPORT SERVICES	4	4	4	4	4	4
UTILITIES - ELECTRIC	9	8	8	8	8	8
UTILITIES - WATER	14	13.5	13.5	13.5	13	14 (5)
UTILITIES - WASTEWATER	7	6.5	6.5	6.5	6	6 (6)
UTILITIES - GAS	8	9	10	10	10	10
TOTAL	134	133	134	138	134	136
LESS ELECTED OFFICIALS	7	7	7	7	7	7
	127	126	127	131	127	129

1. The Mayor, six councilmembers, the Municipal Clerk/Personnel Director, and the Management Services Secretary are budgeted in this account.
2. Two (2) additional temporary videographers have been budgeted for the Union Connection.
3. Business License Coordinator is now included in the Building & Zoning division. Loss of Property Maintenance Inspector
4. Business License Coordinator removed from Accounting division.
5. Council approved the hiring of one (1) Water Plant Operator during FY 2010.
6. A Wastewater Plant Operator position has been reduced to part-time.

**City of Union
Operating Indicators by Function
For Fiscal Year 2011**

DATE OF INCORPORATION	December 20, 1837
FORM OF GOVERNMENT	Mayor/Council
AREA-SQUARE MILES(INCORPORATED)	8
ELECTRIC SYSTEM	
Number of Customer Billing per Month	6911
Substations	3
Circuits	12
Security Lights	2690
Number of Miles of Electric Lines Owned by City	165
Square miles/ electric system	19
WATER SYSTEM	
Number of Customer Billing per Month	5,855
Number of Water Districts Served	5
Daily Pumping Capacity – Gallons	10,400,000
Greatest for a Single Day	4,100,000
Maximum Filtration Plant Capacity per Day- Gallons	10,400,000
Number of Miles of Water Lines Owned by City	183
Square miles/ water system	9
WASTEWATER SYSTEM	
Number of Customer Billing per Month	4,961
Maximum Plant Capacity per Day	
Tosch Creek	6,000,000
Meng Creek	1,000,000
Greatest Processing for a Single Day	2,990,000
Number of Miles of Wastewater Main Owned by City	123
Square miles/wastewater system	8
NATURAL GAS SYSTEM	
Number of Customer Billing per Month	6,346
Maximum Capacity Available on Pipeline in dekatherms	
Transco	10,147
Greatest Consumption for a Single Day-dekatherms	8,537
Number of Miles of Main Gas Line Owned by City	411
Square miles/natural gas system	
PUBLIC SAFETY	
Number of Stations	1
Number of Public Safety Officers	31
Number of Firefighters	3
BUILDINGS	
Permits Issued	548
Estimated Cost of Construction	7,251,504
Inspections	429
Plan Reviews	28
Special Exceptions	2

