

FINANCIAL STATEMENTS

OF

***TOWN OF WARNER
MUSKOGEE COUNTY, OKLAHOMA***

June 30, 2012



Clothier & Company CPA's P.C.

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
The Town of Warner
Warner, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Warner, Warner, Oklahoma as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the Town prepares its financial statements on the cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America, except for the enterprise fund which is prepared in accordance with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended on a basis of accounting other than principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2012, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreement and other matters. The purpose of the report is to describe the scope of our

testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Town has chosen not to present the management's discussion and analysis that is required by the Governmental Accounting Standards Board (GASB) as necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statement that collectively comprise the Town's financial statements. The budgetary comparison information on pages 23 and 24 is presented for purposes of additional analysis and is not a required part of the financial. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Clothier & Company CPA's".

Clothier & Company, CPA's, P.C.

October 23, 2012

Town of Warner
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Primary Government		Total
	Cash Basis Governmental Activities	Accrual Basis Business-type Activities	
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 536,678	\$ 72,934	\$ 609,612
Other Tax Receivable	0	91,768	91,768
Trade Accounts Receivable	0	105,521	105,521
Prepaid Items	0	46,114	46,114
Total Current Assets	536,678	316,337	853,015
Noncurrent Assets			
Capital Assets			
Land	41,500	9,602	51,102
Buildings	1,127,554	470,578	1,598,132
Infrastructure	408,367	3,159,644	3,568,011
Equipment	540,788	522,142	1,062,930
Accumulated Depreciation	(833,960)	(2,465,209)	(3,299,169)
Restricted Cash	0	38,054	38,054
Total Noncurrent Assets	1,284,249	1,734,811	3,019,060
Total Assets	1,820,927	2,051,148	3,872,075
LIABILITIES			
Current Liabilities			
Accounts Payable	0	15,678	15,678
Accrued Expenses	0	32,719	32,719
Current Portion LT Debt	115,145	74,068	189,213
Total Current Liabilities	115,145	122,465	237,610
Noncurrent Liabilities			
Long-term Debt	0	909,332	909,332
Total Noncurrent Liabilities	0	909,332	909,332
Total Liabilities	115,145	1,031,797	1,146,942
NET ASSETS			
Invested in Capital Assets Net of Debt	1,169,104	713,357	1,882,461
Non-Expendable Restricted:			
Debt Services	0	38,054	38,054
Expendable Restricted: Other	108,094	0	108,094
Unrestricted	428,584	267,940	696,524
Total Net Assets	\$ 1,705,782	\$ 1,019,351	\$ 2,725,133

See accompanying footnotes and auditors' report.

**TOWN OF WARNER
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

Function / Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets				
		Charges for Services	Operating Grants and Contribution	Capital Grants and Contribution	Primary Government		Total	Component Units	
					Governmental Activities	Business-type Activities			
Primary Government									
Governmental Activities-Cash Basis:									
General Government	\$ 474,802	\$ 30,359	\$ 38,306	\$ 9,834	\$ (396,303)	\$ 0	\$ (396,303)	\$ 0	
Public Safety	<u>237,634</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(237,634)</u>	<u>0</u>	<u>(237,634)</u>	<u>0</u>	
Total Governmental Activities	<u>712,436</u>	<u>30,359</u>	<u>38,306</u>	<u>9,834</u>	<u>(633,937)</u>	<u>0</u>	<u>(633,937)</u>	<u>0</u>	
Business-type Activities-Accrual Basis:									
Utility	<u>673,359</u>	<u>593,240</u>	<u>80,195</u>	<u>0</u>	<u>0</u>	<u>76</u>	<u>76</u>	<u>0</u>	
Total Business-type Activities	<u>673,359</u>	<u>593,240</u>	<u>80,195</u>	<u>0</u>	<u>0</u>	<u>76</u>	<u>76</u>	<u>0</u>	
Total Primary Government	<u>\$ 1,385,795</u>	<u>\$ 623,599</u>	<u>\$ 118,501</u>	<u>\$ 9,834</u>	<u>(633,937)</u>	<u>76</u>	<u>(633,861)</u>	<u>0</u>	
General Revenues:									
Sales Tax					584,378	0	584,378	0	
Other Taxes					141,642	0	141,642	0	
Franchise Fees					48,912	0	48,912	0	
Investment Income					358	45	403	0	
Other General Revenue					46,998	2,474	49,472	0	
Transfer Revenue					322,312	102,497	424,809	0	
Transfer Expense					<u>(360,203)</u>	<u>(13,891)</u>	<u>(374,094)</u>	<u>0</u>	
Total General Revenues and Transfers					784,397	91,125	875,522	0	
					Change in Net Assets	150,460	91,201	241,661	0
Net Assets - Beginning					<u>1,555,322</u>	<u>928,150</u>	<u>2,483,472</u>	<u>0</u>	
Net Assets - Ending					<u>\$ 1,705,782</u>	<u>\$ 1,019,351</u>	<u>\$ 2,725,133</u>	<u>\$ 0</u>	

See accompanying footnotes and auditors' report.

**TOWN OF WARNER
BALANCE SHEET - CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2012**

	General Fund	Non-Major Fund	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 47,942	\$ 488,736	\$ 536,678
Total Assets	<u>\$ 47,942</u>	<u>\$ 488,736</u>	<u>\$ 536,678</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Fund Balances			
Nonspendable restricted for:			
Capital projects	0	108,094	108,094
Unassigned	47,942	380,642	428,584
Total Fund Balances	<u>47,942</u>	<u>488,736</u>	<u>536,678</u>
Total Liabilities and Fund Balances	<u>\$ 47,942</u>	<u>\$ 488,736</u>	<u>\$ 536,678</u>

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.	1,284,249
Long term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(115,145)</u>
Net assets of governmental activities	<u>\$ 1,705,782</u>

See accompanying footnotes and auditors' report.

Town of Warner
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - CASH BASIS
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED June 30, 2012

	General Fund	Non-Major Funds	Total Governmental Funds
REVENUES			
Sales Tax	\$ 219,142	\$ 365,236	\$ 584,378
Other Taxes	128,403	13,239	141,642
Franchise Fees	48,912	0	48,912
Investment Income	250	108	358
Other General Revenue	16,491	30,507	46,998
Fees Fines and Charges	129	30,230	30,359
Operating Grant	48,140	0	48,140
Total Revenues	<u>461,467</u>	<u>439,320</u>	<u>900,787</u>
EXPENDITURES			
General Government			
Personel Services	123,579	29,173	152,752
Materials and Supplies	33,142	0	33,142
Other Service and Charges	165,366	7,752	173,118
Capital Outlay	109,306	0	109,306
Capital Outlay-Acct. Group	4,104	0	4,104
Public Safety			
Other Service and Charges	12,301	45,101	57,402
Materials and Supplies	36,140	18,067	54,207
Personel Services	124,885	1,140	126,025
Total Expenditures	<u>608,823</u>	<u>101,233</u>	<u>710,056</u>
Excess (deficiency) of Revenues Over Expenditures	<u>(147,356)</u>	<u>338,087</u>	<u>190,731</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	269,487	52,825	322,312
Transfers Out	(113,059)	(247,144)	(360,203)
Total Other Financing Sources and Uses	<u>156,428</u>	<u>(194,319)</u>	<u>(37,891)</u>
Net Change in Fund Balance	9,072	143,768	152,840
Fund Balances - Beginning	<u>38,870</u>	<u>344,968</u>	<u>383,838</u>
Fund Balances - Ending	<u>\$ 47,942</u>	<u>\$ 488,736</u>	<u>\$ 536,678</u>

See accompanying footnotes and auditors' report.

**TOWN OF WARNER
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE
STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012**

Net change in fund balances - total governmental funds		\$152,840
Amounts reported for governmental activities in the Statement of Activities are different because:		
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		0
Loan proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		
Loan proceeds	0	
Repayment of loan principal	22,055	22,055
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is depreciated over their useful lives:		
Expenditures for capital assets	46,565	
less current year depreciation	(71,000)	(24,435)
Governmental funds report expenditures when paid. The Statement of Activities reports expenditures when incurred.		0
Change in Net Assets of Governmental Activities		\$150,460

See accompanying footnotes and auditors' report.

**TOWN OF WARNER
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012**

	Business-type Activities- Enterprise Funds	
	Utilities	Totals
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 72,934	\$ 72,934
Other Tax Receivable	91,768	91,768
Trade Accounts Receivable	105,521	105,521
Prepaid Items	46,114	46,114
Total Current Assets	316,337	316,337
Noncurrent Assets		
Restricted Assets		
Investments	38,054	38,054
Capital Assets		
Land	9,602	9,602
Buildings	470,578	470,578
Infrastructure	3,159,644	3,159,644
Equipment	522,142	522,142
Accumulated Depreciation	(2,465,209)	(2,465,209)
Total Noncurrent Assets	1,734,811	1,734,811
Total Assets	2,051,148	2,051,148
LIABILITIES		
Current Liabilities		
Accounts Payable	15,678	15,678
Accrued Expenses	32,719	32,719
Current Portion LT Debt	74,068	74,068
Total Current Liabilities	122,465	122,465
Noncurrent Liabilities		
Long-term Debt	909,332	909,332
Total Noncurrent Liabilities	909,332	909,332
Total Liabilities	1,031,797	1,031,797
NET ASSETS		
Invested in Capital Assets	713,357	713,357
Restricted for:		
Debt Service	38,054	38,054
Unrestricted	267,940	267,940
Total Net Assets	\$ 1,019,351	\$ 1,019,351

See accompanying footnotes and auditors' report.

TOWN OF WARNER
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Business-type Activities- Enterprise Funds	
	Utilities	Total
Operating Revenues		
Water	\$ 450,078	\$ 450,078
Sewer	113,162	113,162
Sanitation	30,000	30,000
Total Operating Revenues	593,240	593,240
Operating Expenses		
Personel Services	192,022	192,022
Materials and Supplies	221,173	221,173
Other Service and Charges	103,659	103,659
Depreciation Expense	118,961	118,961
Total Operating Expenses	635,815	635,815
Operating Income (Loss)		
	(42,575)	(42,575)
Non-Operating Revenues (Expenses)		
Interest Earnings	45	45
Other General Revenue	2,474	2,474
Operating Grants	80,195	80,195
Interest Expense	(37,544)	(37,544)
Total Non-Operating Revenues (Expenses)	45,170	45,170
Income (Loss) Before Contributions and Transfers		
	2,595	2,595
Transfers In	102,497	102,497
Transfers Out	(13,891)	(13,891)
Total Transfers	88,606	88,606
Change in Net Assets	91,201	91,201
Net Assets - Beginning	928,150	928,150
Net Assets - Ending	\$ 1,019,351	\$ 1,019,351

See accompanying footnotes and auditors' report.

**TOWN OF WARNER
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
June 30, 2012**

Cash Flows From Operating Activities:

Cash received from customers	\$ 551,997
Cash paid to employees	(192,022)
Cash paid to suppliers	(317,696)
Other operating payments	0
Net Cash Flows from Operating Activities	<u>42,279</u>

Cash Flows From Non-operating Activities:

Cash received from other sources	<u>171,275</u>
Net Cash Flows from Non-operating Activities	171,275

Cash Flows From Capital and Related Financing Activities:

Proceeds from issuance of debt	0
Payment of debt	(86,578)
Acquisition and construction of capital assets	(97,169)
Payment of Interest	<u>(37,544)</u>
Net Cash (Used) By Capital and Related Financing Activities	<u>(221,291)</u>

Cash Flows From Investing Activities:

Decrease (Increase) in restricted cash	37,943
Receipt of interest and dividends	<u>45</u>
Net Cash Provided (Used) By Investing Activities	<u>37,988</u>

Net Increase (Decrease) In Cash	30,251
Cash Beginning of Year	42,683
Cash End of Year	<u>\$ 72,934</u>

Reconciliation of Operating Income to Net Cash Flows from Operating Activities:

Operating income (loss)	\$ (42,575)
Add depreciation expense	118,961
(Increase)/Decrease in Current Assets:	
Accounts receivables, net	(41,243)
Prepaid expenses	1,921
Increase/(Decrease) in Current Liabilities:	
Accounts payable	(27,504)
Accrued expenses	<u>32,719</u>
Net Cash Flows from Operating Activities	<u>\$ 42,279</u>

See accompanying footnotes and auditors' report.

TOWN OF WARNER
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Warner, Oklahoma presents its financial statements on the cash basis of accounting, except for its proprietary fund, which is presented on the accrual basis. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied to the extent they are applicable to the basis of accounting utilized by the fund, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

In accordance with GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, the basic financial statements include both government-wide and fund financial statements. In accordance with GASB Statement No. 34, the Town is reporting infrastructure assets on a prospective basis only (infrastructure assets acquired on or after July 1, 2003).

Reporting Entity

The accompanying financial statements present the activities of the Town (the primary government) and its blended component unit. Blended component units, although legally separate entities are, in substance, part of the Town's operations and data from these units are combined with the data of the primary government. In determining the financial reporting entity, the Town complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

Blended Component Units:

The Warner Utilities Authority (WUA) was created pursuant to an amended and restated Trust Indenture dated February 5, 1990 to acquire, construct, lease and operate the water and sewer facilities for the benefit of the Town of Warner, Oklahoma. The WUA is empowered to incur debt for the purposes stated above. The water and sewer systems owned by the Town have been leased to the WUA. The WUA is a public trust and an agency of the State of Oklahoma under Title 60, Oklahoma Statutes and is governed by a board consisting of five trustees identical with the Town. The WUA is exempt from State and Federal Income taxes and is reported as an enterprise fund.

Basic Financial Statements - Government-wide Statements

The Town's basic financial statements consists of government-wide (reporting the Town as a whole) and fund financial statements (reporting the Town's major funds). The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. *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 Town's police and fire protection, public facilities and services, and general government administrative services are classified as governmental activities. The Town's water, sewer and trash services are classified as business-type activities.

The *Government-Wide Statement of Net Assets* presents the Town's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- *Invested in capital assets*, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction, or improvement of those assets.
- *Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation. It is the Town's policy to first utilize restricted resources to finance qualifying activities.
- *Unrestricted net assets* consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The *Government-Wide Statement of Activities* demonstrates the degree to which the direct expenses of a given function or activities are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. *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 activity and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity including special assessments. *Operating grants* include operating-specific and discretionary (either operating or capital) grants while *capital grants* are capital-specific grants. Taxes and other items not properly included as program revenues are reported instead as general revenues.

TOWN OF WARNER

Basic Financial Statements - Fund Financial Statements

The financial transactions of the Town are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activity categories. GASB No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expense of either fund category or the governmental and enterprise categories combined for the determination of major funds. Major individual governmental funds and major individual business-type funds are reported as separate columns in the fund financial statements. All remaining non-major funds are aggregated by category and reported in a column in the fund financial statements.

The following fund types are used by the Town:

Governmental Funds:

The following is a description of the governmental funds of the Town:

- *General Fund* is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund.
- *Special Revenue Funds* are used to account for revenue sources that are legally restricted to expenditures for a specific purpose or designated to finance particular functions of the Town. The special revenue funds used by the town include: Dedicated Sales Tax/Fire Police, Community Center and Street, Municipal Court, Sales Tax and Water Project. Other Special Revenue Funds Considered as non-major funds include: Street and Alley, Park and Recreation, and Child Registry and Investigation.
- *Proprietary funds* are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. In compliance with the Governmental Accounting Standards Board (GASB) Statement No. 20 the Town has elected to only apply Financial Accounting Standards Board (FASB), Accounting Principles Board (APB) and Accounting Research Board (ARB) standards issued on or before November 30, 1989 that do not conflict with GASB. Proprietary funds are classified as enterprise.
- *Warner Utilities Authority* accounts for the operations of providing public works (water, sewer, and refuse) to the Town.

There are no other enterprise funds of the Town to be considered non-major funds.

The following funds are major governmental funds for the Town of Warner:

- *General Fund* - described above.
- *Proprietary Fund* – described above.

The *Governmental Funds Balance Sheet* present the Town's non-fiduciary and non-proprietary assets and liabilities, with the difference reported as fund balance. Fund balance is reported in five categories:

- *Non-spendable fund balance* classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- *Restricted fund balance* are reported as restricted when constraints placed on the use of resources are either:
 - Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or
 - Imposed by law through constitutional provisions or enabling legislation.
- *Committed fund balance* are amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority.
- *Assigned fund balances* are amounts that are constrained by the government's *intent* to be used for specific purposes but are neither restricted nor committed.
- *Unassigned fund balance* is the residual classification for the general fund that represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes with the general fund.

Measurement Focus and Basis of Accounting

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

TOWN OF WARNER

Government-Wide Financial Statements

On the government-wide financial statements both governmental and business-like activities are presented using the *economic resources measurement focus* and the basis of accounting described below for governmental funds.

Fund Financial Statements

In the fund financial statements:

All *governmental funds* utilize a *current financial resources measurement focus* and the *cash basis of accounting*, the same basis of accounting used for preparing budgets for these governmental funds. Generally, only cash-basis assets and liabilities are included on their statements of assets, liabilities and fund balances. Their statements of revenues, expenditures and changes in fund balances present sources and uses of cash during a given period. These funds use fund balances as their measure of available resources at the end of the period. Capital asset acquisitions are reported as expenditures in government funds. Proceeds of general long-term debt are reported as other financing sources. Under the *cash basis of accounting*, revenues are generally recognized when received and expenditures generally are recognized when paid.

The *proprietary fund* financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position, and cash flows. All assets and liabilities (whether current or non-current) associated with fund activities are reported. Proprietary fund equity is classified as net assets. Under the *accrual basis of accounting*, revenues are recognized when earned and expenses are recorded when the liability is incurred or the economic asset is used.

Fiduciary funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them. Fiduciary funds record transactions using the *accrual basis of accounting*.

Assets, Liabilities and Net Assets or Equity

Cash and Investments

For financial statement presentation and for purposes of the statement of cash flows, the Town's cash and cash equivalents are considered to be cash on hand, demand deposits and certificates of deposit with a maturity date of three months or less. Debt instruments with a maturity date of more than three months are considered to be investments. Investments are stated at cost.

Oklahoma statues authorize the Town to invest in certificates of deposit, repurchase agreements, passbooks, banker's acceptances, and other available bank investments provided that approved securities are pledged to secure those funds on deposit in an amount equal to the amount of those funds. In addition, the Town can invest in direct debt securities of the United States unless law expressly prohibits such an investment.

Restricted Cash

The restricted cash is the result of financial requirements of promissory notes between the Warner Utilities Authority and the Oklahoma Water Resources Board which consist of funds held in Debt Service and Debt Service Reserve Accounts. Under the terms and provisions of the promissory notes, these funds are to be maintained so long as the notes are outstanding. In addition, certain funds are restricted for Warner Utilities Authority customer deposit refunds.

Fair Value of Financial Instruments

The Town's financial instruments include cash and cash equivalents, account receivable and accounts payable. The Town's estimates of the fair value of all financial instruments do not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial statements approximates fair value because of the short maturity of these instruments.

Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred as internal balances.

In the government-wide statements and the fund financial statements, the business-type activity reports receivables for water, sewer and other services, which are shown net of an allowance for uncollectible accounts. Allowances for uncollectible receivables are estimated based on historical trends and the periodic aging of accounts.

TOWN OF WARNER

Estimates

The preparation of financial statements in conformity with another comprehensive basis of accounting (OCBOA) used by the Town requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Inventories

Inventories in both governmental funds and proprietary funds normally consist of minimal amounts of expendable supplies held for consumption. The costs of governmental fund-type and proprietary fund inventories are recorded as expenditures when purchased rather than when consumed.

Capital Assets

The accounting treatment of property, plant, and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-Wide Statements:

In the government-wide financial statements, when capital assets are purchased, they are capitalized and depreciated. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The Town maintains a capitalization threshold of \$1,000. Improvements are capitalized, the costs of normal maintenance and repairs that do not add value to the asset or materially extend an assets' life are not capitalized.

All reported capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets.

Depreciation is computed using the straight-line method over the following ranges of estimated useful lives:

Buildings	40 years
Improvements, other than buildings	10 years
Machinery, furniture and equipment	5-15 years
Utility property and improvements	7-40 years

The Town has not maintained accurate capital asset records to support the historical cost of past capital asset purchases. Accounting principles generally accepted in the United States of America require that capital assets be recorded at historical cost net of accumulated depreciation. Documentation supporting historical cost was not readily available for review. The amount by which this departure would affect the assets, net assets, and expenses of the Governmental Activities is not readily determinable.

Fund Financial Statements:

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as the government-wide statements.

Compensated Absences

It is the Town's policy to permit employees to accumulate earned but unused vacation time and sick leave. Full-time and part time regular employees who have been employed continuously for at least 12 months are granted vacation benefits in varying amounts to a maximum of 360 hours depending on tenure with the Town. Employees are entitled to payment for accrued vacation, but not sick leave, upon termination. The Town has no accrued compensated absences because the amount (\$10,043) is not material to the financial statements. Accrued sick leave in the amount of \$21,040 is not recorded in the financial statements.

Long –Term Obligations

The accounting and reporting treatment applied to long-term liabilities associated with a fund are determined by its measurement focus. All governmental funds types are accounted for on a spending "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources".

TOWN OF WARNER

Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Therefore, long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

Net Assets/Fund Balance

In the government-wide financial statement, net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws or other governments, or are imposed by law through constitutional provisions or enabling legislation. The Town applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Process

In accordance with state statutes of the State of Oklahoma, the town's trustees adopt a budget on the modified cash basis for all governmental funds and the accrual basis for the proprietary fund. They follow the required public notice and hearings for all funds and appropriate the amount deemed necessary for each of the different Town activities. The budget may be amended during the year utilizing similar statutorily prescribed procedures and time limitations. Encumbrances are not recognized on the modified cash basis and appropriations lapse at year-end.

Formal and legal budgetary control is based upon each independent fund. Disbursements are budgeted in each fund including the general fund, special revenue funds, debt service fund, capital projects fund, and proprietary fund.

NOTE 3. DETAILED NOTES CONCERNING THE FUNDS

Deposits and Investments

The Town's cash deposits, including interest-bearing certificates of deposit, are entirely covered by Federal Depository Insurance (FDIC), the Dodd-Frank Act, direct obligation of U.S. Government insured or collateralized with securities held by the Town or by its agent in the Town's name.

Oklahoma Stat. Ann. Title 62 Sec. 516.1 through 516.10 provide for the furnishing of acceptable collateral securities valued at the lower of market or par to be pledged to secure the deposits of public funds in excess of the amount insured by an agency of the United States Government. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain State of Oklahoma or political subdivision debt obligations, or surety bonds. The Town's deposit policies comply with state statutes.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the Town's deposits might not be recovered. As of June 30, 2012, all of the Town's cash in financial institutions were covered by the FDIC or secured pledges. The categories of credit risk are as follows:

	<u>Town</u>	<u>Utility</u>
A. Insured or collateralized with securities held by the Town	\$44,353	\$0
B. Collateralized with securities held by banks trust department	0	0
C. Collateralized with securities held by bank not in Town's name	0	0
D. FDIC insured/Dodd-Frank coverage	<u>492,325</u>	<u>72,934</u>
Total	<u>\$536,678</u>	<u>\$72,934</u>

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Capital Assets

Capital asset activity resulting from modified cash basis transaction for the governmental activities for the year ended June 30, 2012 was as follows:

	<u>Cost</u>	<u>Additions</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Community Center	\$13,145	\$4,435	\$4,095	\$13,485
General Government	828,481	2,789	319,048	512,222
Fire Department	457,643	14,746	172,563	299,826
Police Department	308,839	13,539	194,338	128,040
Street/Infrastructure	463,536	11,056	143,916	330,676
	<u>\$2,071,644</u>	<u>\$46,565</u>	<u>\$833,960</u>	<u>\$1,284,249</u>

Business-type Proprietary Fund

Capital asset activity for the proprietary fund for the year ended June 30, 2012 was as follows:

	<u>Cost</u>	<u>Additions</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Buildings	\$470,578	\$0	\$134,163	\$336,415
Equipment	466,168	55,974	403,217	118,925
Land	9,602	0	0	9,602
Infrastructure	3,118,449	41,195	1,927,829	1,231,815
	<u>\$4,064,797</u>	<u>\$97,169</u>	<u>\$2,465,209</u>	<u>\$1,696,757</u>

Local Reserve Requirement – Enterprise Fund

The OWRB loans require the Trustee Bank to establish and maintain a “reserve” fund to secure payment of debt service on the notes. Bank of Oklahoma (the Trustee Bank) has established this reserve fund which meets the loan agreement’s minimum requirement. The summary of these funds held by the Trustee Bank at June 30, 2012 are as follows:

Sales Tax, Fire, Police, Community Center and Street Projects Fund:	
Restricted for voter approved expenditures	\$16,326
Sales Tax and Water Project Fund:	
Restricted for voter approved expenditures	<u>91,768</u>
Total Restricted Net Assets Governmental Activities	<u>\$108,094</u>
Enterprise Fund:	
Restricted for debt service	<u>\$38,054</u>

NOTE 4. INTER-FUND RECEIVABLE, PAYABLE AND TRANSFERS

Inter-fund Transactions

Inter-fund transactions are reflected as loans, services provided, reimbursements of transfers.

- Services provided, deemed to be at market of near market rates, are treated as revenues and expenditures/expenses.
- Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement.

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- All other inter-fund transactions are treated as transfers and are reported “gross” in the fund financial statements. Transfers between governmental funds are eliminated in the conversion to the government-wide financial statements, while transfers between governmental and proprietary funds are reported “net”.

Inter-fund Receivables and Payables

There were no amounts due from or due to other governmental funds at June 30, 2012.

NOTE 5. LONG-TERM DEBT

A summary of the Town’s debt activity for the year ended June 30, 2012, is presented below:

Note payable to Armstrong Bank to finish construction of commercial building on 3rd Ave, Warner Oklahoma, interest rate of 6.25%, payable in equal monthly payments of \$3,675, matures September 2014 at which time the Town can pay the balance or renew the loan \$115,145

Warner Utilities Authority Notes Payable

Notes payable to the Oklahoma Water Resources Board (“OWRB”) to be serviced by the Warner Utility Authority are as follows:

Adjustable rate mortgage (currently 4.45%), payments semi-annually including principal, interest and administrative fees of \$13,952, secured by pledge of revenue of the water, sewer and garbage facilities owned by the Town, but leased to the Utility Authority. The note matures August 15, 2024. \$ 302,250

Fixed rate mortgage at 3.128% payable semi-annually including principal, interest and a .05% administrative fee, secured by the gross income and revenue of the water, sewer garbage facilities owned by the Town, but leased to the Utility Authority. The note matures March 15, 2020. 119,005

Note payable to Armstrong Bank to be serviced by Warner Utility Authority at a fixed Rate of 4.9%, monthly payments of principal and interest of \$2,237. The note matures May 15,2023 224,536

Note payable to Armstrong Bank to be serviced by Warner Utility Authority at a fixed Rate of 4.9%, monthly payments of principal and interest of \$3,781. The note Matures December 8, 2021. 337,609

Total debt		983,400
Less: Current Maturities		<u>74,068</u>
Total Long-term Debt		<u>\$ 909,332</u>

The current maturities and debt service requirements on these notes as of June 30, 2012 are as follows:

	<u>Maturities</u>	<u>Debt Service</u>
2013	\$74,068	\$108,198
2014	78,043	109,259
2015	82,252	110,407
2016	86,791	111,737
2017	91,491	113,053
2018-2022	469,923	522,409
2022-2024	100,832	102,798
	<u>\$983,400</u>	<u>\$1,177,861</u>

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NOTE 6. NET ASSETS

Investment in Capital Assets, Net of Related Debt

As of June 30, 2012 the investment in capital assets, net of related debt consisted of the following:

	<u>Governmental</u>	<u>Business- Type</u>	<u>Total</u>
Capital assets (Note 3)	\$1,284,249	\$1,696,757	\$2,981,006
Armstrong Bank notes payable	(115,145)	(562,145)	(677,290)
Oklahoma Water Resources Board notes payable	0	(421,255)	(421,255)
Investment in Capital Assets, net of related debt	<u>\$1,169,104</u>	<u>\$713,357</u>	<u>\$1,882,461</u>

Restricted Net Assets

The Town records reserves to indicate that a portion of the fund equity is legally segregated for a specific future use. The following details the description and amount of all reserves used by the Town as of June 30, 2012.

Sales Tax, Fire, Police, Community Center and Street Projects Fund:	
Restricted for voter approved expenditures	\$16,326
Sales Tax and Water Project Fund:	
Restricted for voter approved expenditures	<u>91,768</u>
Total Restricted Net Assets Governmental Activities	<u>\$108,094</u>
Enterprise Fund:	
Restricted for debt service	<u>\$38,054</u>

NOTE 7. PENSIONS PLANS

The Town participates in defined contribution plans for its policemen, firemen and municipal employees. The plans are administered by the various retirement systems of the State of Oklahoma. The Town contributes an amount equal to 12% of the base salary for its policemen participants; \$60 per participant for its firemen; and 4% of the base salary for its other municipal employees. In addition, policemen participants contribute an amount equal to 8% of their base salary and the municipal employees, other than firemen, contribute 3% of their base salary.

All contributions, both employer and employee, are transmitted to the various retirement systems for administration. The reporting entity's contributions were \$16,345 for the Town and \$9,433 for the business-type entity.

The Town is required to make annual contributions of \$60 per active volunteer fireman to OFPRS. This contribution covers a portion of the cost of benefits that will be paid to vested volunteer firemen. Additional funding comes from a percentage on all taxes collected on premiums collected by insurance companies and an appropriation by the State of Oklahoma. The Town's contributions to OFPRS were \$1,140 for 2012.

NOTE 8. RISK MANAGEMENT

The Town of Warner is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters, all of which is satisfactorily insured by general liability insurance. Commercial insurance policies are also obtained for other specific risks of loss, including workers compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

The Town is a member of the Oklahoma Municipal Assurance Group Workers' Compensation Plan (the Plan), an organization formed for the purpose of providing workers' compensation coverage through the State Insurance Fund to participating municipalities in the State of Oklahoma. In that capacity, the Plan is responsible for providing loss control services and certain fiscal activities, including obtaining contract arrangements for the underwriting, excess insurance agreements, claims processing, and legal defense for all claims submitted to it during the plan year.

As a member of the Plan, the Town is required to pay fees set by the Plan according to an established payment schedule. A Loss Fund has been established from the proceeds of these fees for each participant in the Plan. The State Insurance Fund provides coverage in excess of the Loss Fund so the Town's liability for claim loss is limited to the balance of the fund.

SUPPLEMENTAL INFORMATION

TOWN OF WARNER
Budgetary Comparison-Cash Basis
For the Year Ended June 30, 2012

	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
GOVERNMENTAL FUNDS				
Revenues & Transfers In:				
Taxes	611,550	611,550	726,020	(114,470)
Franchise Fees	50,850	50,850	48,912	1,938
Fines and Forfeitures	0	0	30,359	(30,359)
Other General Revenue	28,500	28,500	36,278	(7,778)
Grant Proceeds	0	0	58,860	(58,860)
Interest on Investments	325	325	358	(33)
Intergovernmental	19,750	19,750	0	19,750
Transfers In	82,608	82,608	322,312	(239,704)
Total Revenue	<u>793,583</u>	<u>793,583</u>	<u>1,223,099</u>	<u>(429,516)</u>
Expenditures and Transfers Out:				
Personal Services	336,669	336,669	278,777	57,892
Material and Supplies	47,772	47,772	87,349	(39,577)
Other	213,933	213,933	308,004	(94,071)
Capital Outlay	47,800	47,800	48,140	(340)
Debt Service	0	0	22,055	(22,055)
Transfers Out	71,988	71,988	360,203	(288,215)
Total Expenses	<u>718,162</u>	<u>718,162</u>	<u>1,104,528</u>	<u>(386,366)</u>
Revenue Over/(Under) Expenses	<u>75,421</u>	<u>75,421</u>	<u>118,571</u>	<u>(43,150)</u>

Reconciliation of budgetary comparison to Statement of Activities:

Add: Principal payments	22,055
Capital outlay reclassified to fixed assets	<u>9,834</u>
Change in Net Assets	<u>150,460</u>

TOWN OF WARNER
Budgetary Comparison
For the Year Ended June 30, 2012

	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
ENTERPRISE FUND				
Revenues & Transfers In:				
Charges for Services	560,900	560,900	593,240	(32,340)
Other General Revenue	0	0	2,474	(2,474)
Interest on Investments	2,500	2,500	45	2,455
Miscellaneous Revenues	1,500	1,500	0	1,500
Operating Grants	0	0	80,195	(80,195)
Transfers In	50,000	50,000	102,497	(52,497)
Total Revenue	<u>614,900</u>	<u>614,900</u>	<u>778,451</u>	<u>(163,551)</u>
Expenditures and Transfers Out:				
Personal Services	199,369	199,369	192,022	7,347
Material and Supplies	115,787	115,787	221,173	(105,386)
Other	252,679	252,679	103,659	149,020
Capital Outlay	4,000	4,000	41,195	(37,195)
Debt Service	134,675	134,675	124,122	10,553
Transfers Out	0	0	13,891	(13,891)
Total Expenses	<u>706,510</u>	<u>706,510</u>	<u>696,062</u>	<u>10,448</u>
Revenue Over/(Under) Expenses	<u>(91,610)</u>	<u>(91,610)</u>	<u>82,389</u>	<u>(173,999)</u>

Reconciliation of budgetary comparison to Statement of
Revenues, Expenses, and Changes in Net Assets :

Add: Principal payments	86,578
Less: Depreciation expense	(118,961)
Capital outlay reclassified to fixed assets	<u>41,195</u>
Change in Net Assets	<u><u>91,201</u></u>



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**Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*.**

To the Board of Trustees of
The Town of Warner
Warner, Oklahoma

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of The Town of Warner as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements and have issued our report thereon dated October 23, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of The Town of Warner is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered The Town of Warner's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Town of Warner's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of The Town of Warner's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses we identify a deficiency in internal control over financial reporting that we consider to be a material weakness.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as 2012-1 to be a material weakness.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Town of Warner's financial statements are free of material misstatements, we 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 object of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

The Town of Warner's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit The Town of Warner's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Trustees, management, Oklahoma Department of Commerce, and the Office of the State Auditor and Inspector and is not intended to be and should not be used by anyone other than these specified parties.



Clothier & Company, CPA's, P.C.
October 23, 2012

**TOWN OF WARNER
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE PERIOD ENDED JUNE 30, 2012**

Section I – Summary of Prior Year Audit Finding

2011-1 – Timeliness of the Audit

Condition – Information for the audit is not given to the auditor in a timely manner.

Current Status – The information to do the audit was received in a timely manner this year.

2011-2 – Transfers between the funds do not zero out

Condition – The transfers in and out of the individual funds of the Town do not zero out each other.

Current Status – The transfers in and out of the individual funds of the Town do not zero out again this year.

Section II – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued. – Unqualified

Internal control over financial reporting:

- Material weaknesses identified? yes no
- Significant control deficiencies identified that are Not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Section III – Financial Statement Findings

2012-1 – Transfers between the funds do not zero out

Criteria or specific requirement – The transfers between the individual funds should balance to zero.

Condition – The transfers in and out of the individual funds of the Town do not zero out each other.

Context – The outside service provider made adjustments to transfer in order to get the different funds in the Town's general ledger to balance because the general ledger was so far out of balance.

Effect – The funds balance but the transfers do not zero out.

Cause – Not posting funds transfers correctly between accounts and reviewing financials monthly to check for errors.

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Recommendation – Use an outside service provider to prepare monthly financial statements or find a more user friendly accounting program. Both would help provide better financial reporting.

Views of responsible officials and planned corrective actions – Closer scrutiny and more frequent checking of staff transaction will be done, more monitoring by service provider to improve posting of transactions. Have opened additional bank accounts to avoid so many transfers.