

Town of Union City, Oklahoma

**Financial Statements and Report
of Independent Auditor**

**As of and For the Year Ending
June 30, 2012**

**TOWN OF UNION CITY, OKLAHOMA
FINANCIAL STATEMENTS
JUNE 30, 2012**

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INDEPENDENT AUDITOR'S REPORT

Members of the Town Board of Trustees
Town of Union City, Oklahoma

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 Town of Union City, 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. My responsibility is to express opinions on these financial statements based on my audit.

Except as discussed in the following paragraphs, 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 the 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.

As discussed in Note 1.D., the Town of Union City, Oklahoma prepares its financial statements on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As discussed in Note 1.E., management has not recorded certain general capital assets in governmental activities and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America, when applied to such a modified cash basis of accounting, require that those general capital assets be capitalized and depreciated, which would increase the assets, net assets, and expenses of the governmental activities. The amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not reasonably determinable.

In my opinion, except for the effects of the matter discussed in the preceding paragraph on the accompanying financial statements of the governmental activities, the accompanying statement of net assets and statement of activities present fairly, in all material respects, the financial position of the governmental activities of the Town of Union City, Oklahoma, as of June 30, 2012, and the respective changes in financial position - modified cash basis thereof for the year then ended in conformity with the basis of accounting described in Note 1.D.

In addition, in my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position - modified cash basis of the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Union City, Oklahoma, as of June 30, 2012, and the respective changes in financial position—modified cash basis, and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.D.

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Town of Union City, Oklahoma Page 2

In accordance with *Government Auditing Standards*, I have also issued my report dated February 24, 2013, on my consideration of the Town'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 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 important for assessing the results of my audit.

The Town of Union City has not presented the Management's Discussion and Analysis or the Budgetary Comparison that the Governmental Accounting Standards Board (GASB) has determined is necessary supplemental information, although not required to be part of the basic financial statements. Such information, although not a 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. My opinion on the basic financial statements is not affected by this missing information.

As described in Note-6 to the financial statements, the Town's June 30, 2011 financial statements have been corrected to record two capital asset exchanges and the related capital lease liabilities. My opinion is not modified with respect to that matter.



Joe Bob Smith
Certified Public Accountant
Broken Bow, Oklahoma

February 24, 2013

BASIC FINANCIAL STATEMENTS

TOWN OF UNION CITY, OKLAHOMA
Statement of Net Assets - Modified Cash Basis
JUNE 30, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and Cash Equivalents:			
Unrestricted	\$ 106,787	74,086	180,873
Restricted	15,651	21,858	37,509
Capital Assets:			
Land and Other Non-depreciable Assets	0	65,900	65,900
Other Capital Assets, Net	712,159	898,556	1,610,715
Deferred Charges, Net	0	0	0
Total Assets	834,597	1,060,400	1,894,997
Liabilities			
Payroll Tax Liabilities	6,019	11,802	17,821
Due to Depositors	0	19,462	19,462
Long-Term Liabilities:			
Due Within One Year	23,126	24,325	47,451
Due In More Than One Year	19,406	144,866	164,272
Total Liabilities	48,551	200,455	249,006
Net Assets			
Invested In Capital Assets, Net of Related Debt	669,627	795,265	1,464,892
Restricted for Capital Projects	15,651	0	15,651
Restricted for Debt Service	0	0	0
Unrestricted	100,768	64,680	165,448
Total Net Assets	\$ 786,046	859,945	1,645,991

See accompanying notes to basic financial statements.

TOWN OF UNION CITY, OKLAHOMA
Statement of Activities - Modified Cash Basis
For the Year Ending June 30, 2012

Functions/Programs	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
General Government	\$ 91,375	94,890	0	15,000	18,515	0	18,515
Police	253,009	185,348	0	43,923	(23,738)	0	(23,738)
Fire	67,444	500	5,541	6,750	(54,653)	0	(54,653)
Streets	20,838	0	0	0	(20,838)	0	(20,838)
Community Service	8,310	0	4,500	0	(3,810)	0	(3,810)
Interest on Long-Term Debt	2,102	0	0	0	(2,102)	0	(2,102)
Depreciation Expense-Unallocated	70,294	0	0	0	(70,294)	0	(70,294)
Total Governmental Activities	513,372	280,738	10,041	65,673	(156,920)	0	(156,920)
Business-Type Activities:							
Water / Sewer	305,942	247,480	0	0	0	(58,462)	(58,462)
Sanitation	30,318	42,173	0	0	0	11,855	11,855
Interest on Long-Term Debt	7,522	0	0	0	0	(7,522)	(7,522)
Total Business-Type Activities	343,782	289,653	0	0	0	(54,129)	(54,129)
Total Primary Government	\$ 857,154	570,391	10,041	65,673	(156,920)	(54,129)	(211,049)
General Revenues:							
Taxes:							
Sales Tax					136,435	0	136,435
Franchise Tax					43,687	0	43,687
Other Taxes					8,560	0	8,560
Intergovernmental Revenue					13,967	0	13,967
Investment Income					481	624	1,105
Miscellaneous Revenues					25,414	0	25,414
Rounding & Other					0	0	0
Gain (Loss) on Sale of Assets					5,500	0	5,500
Transfers-Internal Activity					(12,425)	12,425	0
Total General Revenues and Transfers					221,619	13,049	234,668
Change in Net Assets					64,699	(41,080)	23,619
Net Assets-Beginning					721,347	901,025	1,622,372
Net Assets-Ending				\$	786,046	859,945	1,645,991

See accompanying notes to basic financial statements

TOWN OF UNION CITY, OKLAHOMA
Statement of Assets, Liabilities, and Fund Balances
Governmental Funds - Modified Cash Basis
JUNE 30, 2012

	General Fund	Fire Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and Cash Equivalents				
Unrestricted	\$ 64,035	34,656	8,095	106,786
Restricted	0	0	15,652	15,652
Due from other funds	4,082	0	0	4,082
Total Assets	68,117	34,656	23,747	126,520
Liabilities				
Payroll tax liabilities payable	6,019	0	0	6,019
Due to other funds	0	0	4,082	4,082
Total Liabilities	6,019	0	4,082	10,101
Fund Balances				
Restricted for:				
Capital Projects	0	0	15,652	15,652
Debt Service	0	0	1	1
Committed for:				
Street and Alley	0	0	422	422
Culture and Recreation	0	0	2,023	2,023
Assigned to:				
Fire Department	0	34,656	0	34,656
Unassigned	62,098	0	1,567	63,665
Total Fund Balances	62,098	34,656	19,665	116,419
Total Liabilities and Fund Balances	\$ 68,117	34,656	23,747	126,520

See accompanying notes to basic financial statements.

TOWN OF UNION CITY, OKLAHOMA
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds - Modified Cash Basis
For the Year Ending June 30, 2012

	General Fund	Fire Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ 188,682	0	0	188,682
Intergovernmental	0	0	13,967	13,967
Fines and Forfeitures	185,348	0	0	185,348
Licenses, Permits, and Fees	102,954	200	0	103,154
Charges for Services	0	500	1,544	2,044
Investment Income	360	106	15	481
Donations and Fundraisers	0	1,118	19,510	20,628
Grants	0	4,413	50,673	55,086
Miscellaneous Other Revenues	15,066	407	131	15,604
Total Revenues	492,410	6,744	85,840	584,994
Expenditures				
Current:				
General Government	91,379	0	0	91,379
Public Safety:				
Police and Court	251,581	0	1,428	253,009
Fire	6,950	67,444	0	74,394
Streets	0	0	13,888	13,888
Community Service & Other	0	0	8,304	8,304
Capital Outlay	24,093	10,445	50,888	85,426
Debt Service	30,969	0	0	30,969
Total Expenditures	404,972	77,889	74,508	557,369
Excess (Deficiency) of Revenues Over (Under) Expenditures	87,438	(71,145)	11,332	27,625
Other Financing Sources (Uses)				
Capital Lease Proceeds	23,613	0	0	23,613
Proceeds From Sale of Assets	5,500	0	0	5,500
Transfers In	9,600	79,295	0	88,895
Transfers Out	(89,897)	(11,423)	0	(101,320)
Total Other Financing Sources (Uses)	(51,184)	67,872	0	16,688
Net Change in Fund Balances	36,254	(3,273)	11,332	44,313
Fund Balances - Beginning	25,844	37,929	8,333	72,106
Fund Balances - Ending	\$ 62,098	34,656	19,665	116,419

See accompanying notes to basic financial statements.

TOWN OF UNION CITY, OKLAHOMA
Reconciliation of Governmental Fund and Government-Wide Financial Statements
Governmental Funds - Modified Cash Basis
JUNE 30, 2012

Reconciliation to Statement of Net Assets:

Fund balances of governmental funds	\$	116,419
<p>Amounts reported for governmental activities in the Statement of Net Assets are different because:</p> <p style="padding-left: 20px;">Capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds:</p>		
Capital assets		893,774
Accumulated depreciation		(181,615)
<p>Some liabilities are not due and payable in the current period and, therefore are not reported in the funds:</p>		
Capital debt obligations		(42,532)
Net assets of governmental activities	\$	<u><u>786,046</u></u>

Reconciliation to Statement of Activities:

Net change in fund balances of governmental funds	\$	44,313
<p>Amounts reported for governmental activities on the Statement of Activities are different because:</p> <p>Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:</p>		
Capital asset purchases capitalized		85,426
Depreciation expense		(70,294)
Loss on disposal of capital assets		0
<p>Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:</p>		
Debt proceeds		(23,613)
Capital lease principal payments		28,867
Rounding		0
Change in net assets of governmental activities	\$	<u><u>64,699</u></u>

See accompanying notes to basic financial statements.

TOWN OF UNION CITY, OKLAHOMA
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS-MODIFIED CASH BASIS
JUNE 30, 2012

	ENTERPRISE FUND MUNICIPAL AUTHORITY <hr/> 2012 <hr/>
CURRENT ASSETS:	
CASH AND EQUIVALENTS-UNRESTRICTED	\$ 74,086
TOTAL CURRENT ASSETS	<hr/> 74,086 <hr/>
NON-CURRENT ASSETS:	
CASH AND EQUIVALENTS-RESTRICTED	21,858
CAPITAL ASSETS (NET OF ACCUMULATED DEPRECIATION)	964,456
TOTAL NON-CURRENT ASSETS	<hr/> 986,314 <hr/>
TOTAL ASSETS	<hr/> 1,060,400 <hr/>
CURRENT LIABILITIES:	
ACCRUED PAYROLL TAXES	11,802
CURRENT NOTES PAYABLE	24,325
TOTAL CURRENT LIABILITIES	<hr/> 36,127 <hr/>
NON-CURRENT LIABILITIES:	
CUSTOMERS DEPOSITS	19,462
NOTES AND CAPITAL LEASES PAYABLE	169,191
LESS-CURRENT NOTES	(24,325)
TOTAL NON-CURRENT LIABILITIES	<hr/> 164,328 <hr/>
TOTAL LIABILITIES	<hr/> 200,455 <hr/>
NET ASSETS:	
INVESTED IN CAPITAL ASSETS-NET OF RELATED DEBT	795,265
UNRESTRICTED (DEFICIT)	64,680
TOTAL NET ASSETS	<hr/> 859,945 <hr/>
TOTAL LIABILITIES AND NET ASSETS	<hr/> \$ 1,060,400 <hr/>

SEE ACCOMPANYING NOTES TO BASIC FINANCIAL STATEMENTS

TOWN OF UNION CITY, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS-MODIFIED CASH BASIS
YEAR ENDED JUNE 30, 2012

	ENTERPRISE FUND MUNICIPAL AUTHORITY <hr/> 2012 <hr/>
OPERATING REVENUES:	
WATER AND SEWER REVENUES	\$ 242,186
SANITATION FEES	42,173
OTHER REVENUES	5,294
TOTAL OPERATING REVENUES	<hr/> 289,653 <hr/>
OPERATING EXPENSES:	
WATER PURCHASES	102,808
SANITATION SERVICES	30,318
PERSONAL SERVICE	59,981
SUPPLIES AND REPAIRS	23,004
FUEL AND TRANSPORTATION	5,681
DEPRECIATION EXPENSE	58,819
INSURANCE	10,242
OFFICE AND OTHER EXPENSES	23,182
PROFESSIONAL FEES	1,932
PAYROLL TAXES	5,687
LICENSE, DUES, AND FEES	7,596
UTILITIES AND TELEPHONE	7,010
TOTAL OPERATING EXPENSES	<hr/> 336,260 <hr/>
OPERATING INCOME (LOSS)	(46,607)
NON-OPERATING REVENUES & (EXPENSES):	
INTEREST INCOME	624
INTEREST EXPENSE	(7,522)
TOTAL NON-OPERATING REVENUES (EXPENSES)	<hr/> (6,898) <hr/>
INCOME (LOSS) BEFORE CONTRIBUTIONS & TRANSFERS	(53,505)
CAPITAL CONTRIBUTIONS & TRANSFERS:	
TRANSFERS IN (OUT)	<hr/> 12,425 <hr/>
CHANGE IN NET ASSETS- INCREASE (DECREASE)	(41,080)
NET ASSETS-BEGINNING	901,025
NET ASSETS-ENDING	<hr/> \$ 859,945 <hr/>

SEE ACCOMPANYING NOTES TO BASIC FINANCIAL STATEMENTS

**TOWN OF UNION CITY, OKLAHOMA
STATEMENT OF CASH FLOWS-PROPRIETARY FUNDS
MODIFIED CASH BASIS
YEAR ENDED JUNE 30, 2012**

**ENTERPRISE FUND
MUNICIPAL
AUTHORITY
2012**

Cash flow from operating activities:

Cash received from customers	\$	289,544
Cash paid to suppliers		(163,140)
Cash paid for personal services		(59,981)
Cash paid for other operating expenses		(49,530)
Net cash provided (used) by operating activities		16,893

Cash flow from noncapital financing activities:

Transfers from (to) other funds		12,425
Net cash provided (used) by noncapital financing activities		12,425

Cash flow from capital and related financing activities:

Interest paid on notes and leases payable		(7,522)
Principal paid on notes and leases payable		(226,579)
Acquisition and construction of capital assets		(50,739)
Loan proceeds received		152,221
Customer deposit refunds		(2,795)
Customer deposit receipts		3,978
Capital lease proceeds		29,172
Net cash provided (used) by capital and related financing activities		(102,264)

Cash flow from investing activities:

Investment and interest income		624
Net cash provided (used) by investing activities		624

Cash flow from non-cash transfer activities:

Net cash provided (used) by non-cash transfer activities		0
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Net increase (decrease) in cash and equivalents

		(72,322)
Cash and equivalents, beginning of year		168,266
Cash and equivalents, end of year	\$	95,944

**TOWN OF UNION CITY, OKLAHOMA
STATEMENT OF CASH FLOWS-PROPRIETARY FUNDS
MODIFIED CASH BASIS
YEAR ENDED JUNE 30, 2012**

**ENTERPRISE FUND
MUNICIPAL
AUTHORITY
2012**

**Reconciliation of change in net assets to net cash
provided by operating activities**

Change in net assets		\$ (41,080)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Non-operating (income) expense		(5,527)
Depreciation and amortization		58,819
Increase (decrease) in accrued liabilities		(3,330)
(Increase) decrease in prepaid expenses		8,011
Total adjustments		57,973
Net cash provided (used) by operating activities		\$ 16,893
Cash and equivalents-unrestricted	\$	74,086
Cash and equivalents-restricted		21,858
Total cash and equivalents, end of year	\$	95,944

TOWN OF UNION CITY, OKLAHOMA
Statement of Fiduciary Net Assets
Fiduciary Funds - Modified Cash Basis
June 30, 2012

	Agency Fund Municipal Court
Assets	
Cash and Cash Equivalents	\$ <u>1,482</u>
Total Assets	<u>1,482</u>
Liabilities	
Police Bond Liability	<u>1,482</u>
Total Liabilities	<u><u>1,482</u></u>

See accompanying notes to basic financial statements.

TOWN OF UNION CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1. Summary of Significant Accounting Policies

1.A. Financial Reporting Entity

The Town's financial reporting entity includes the primary government (Town of Union City), and its blended component units. The town has no component units that are reported discretely. This report includes all activities for which the Town of Union City's Town Council is fiscally responsible. In determining the financial reporting entity, the Town complies with the provisions of Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity", and includes all component units for which the Town is financially accountable.

The Town of Union City (the "Town") operates the public safety, health and welfare, streets and highways, parks and recreation, and administrative activities.

The Town of Union City is an incorporated municipality with population of approximately 1,400 located in central Oklahoma. The Town operates under a form of government that is comprised of an elected Town Board of Trustees and Mayor.

1.B. Blended Component Units

Union City Municipal Authority (UCMA) - The trust has as its purpose to finance, develop, and operate the water, wastewater, and sanitation services and physical facilities.

The UCMA is a Public Trust established pursuant to Title 60 of Oklahoma State law. Public Trusts (Authorities) have no taxing power. The Authorities are generally created to finance Town services through issuance of revenue bonds or other non-general obligation debt and to enable the Town Council to delegate certain functions to the governing body (Trustees) of the Authority. The Authorities generally retain title to assets, which are acquired or constructed with Authority debt, or other Authority generated resources. In addition, the Town has leased certain existing assets at the creation for the Authorities to the Trustees on a long-term basis. The Town, as beneficiary of the Public Trusts, receives title to any residual assets when a Public Trust is dissolved.

1.C. Basis of Presentation

Government-Wide Financial Statements - The Statement of Net Assets and Statement of Activities report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund 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. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Certain indirect expenses are included in the program expense reported for individual functions and activities. 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.

TOWN OF UNION CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Fund Financial Statements - 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. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

1.D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Except for the use of a modified cash basis of accounting as discussed below, the Town complies with generally accepted accounting principles (GAAP). The Town's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Town's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

Basis of accounting refers to when revenues and expenditures/expenses are recognized and reported in the financial statements. This relates to the timing of the revenues and expenditures/expenses regardless of the measurement focus applied. Measurement focus identifies which transactions and events should be recorded. In the governmental fund financial statements, a current financial resources measurement focus is applied. In the government-wide Statement of Net Assets and the Statement of Activities, and the proprietary funds, an economic resources measurement focus is applied.

Both governmental and business-type activities in the government-wide financial statements and the fund financial statements are presented using a modified cash basis of accounting. This modified cash basis of accounting is based on the recording of cash and cash equivalents and changes therein, and only recognizes revenues, expenses, assets and liabilities resulting from cash transactions adjusted for modifications that have substantial support in generally accepted accounting principles. These modifications include adjustments for the following balances arising from cash transactions:

- capital assets and the depreciation of those assets, where applicable
- long-term debt
- cash-based inter-fund receivables and payables, if any
- investments and other deposits
- encumbrances payable
- utility deposit liabilities

This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected, and accrued revenue and receivables) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

If the Town used the basis of accounting required by generally accepted accounting principles, the fund financial statements for governmental funds would use the modified accrual basis of accounting and the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting. Under the modified accrual basis of accounting, revenues would be recognized when susceptible to accrual (i.e. both measurable and available) and expenditures would be recorded when the current liability is incurred. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred.

**TOWN OF UNION CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

The Town reports the following funds:

Governmental Funds

Major Governmental Funds:

- General Fund — 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:

- Fire Department Fund — Accounts for volunteer fire revenues and expenses.

Aggregated Non-Major Governmental Funds:

Special Revenue Funds:

- Street & Alley Fund — Accounts for commercial vehicle and gasoline excise taxes legally restricted for street repairs and maintenance.
- Police Fund — Accounts for grants and donations received for juvenile programs.
- 4th Festival Fund — Accounts for donations and funds raised to support the Town's annual July 4th fireworks show and community festival.

Capital Projects Funds:

- REAP Grant Fund — Accounts for REAP grants received and related expenses.
- Home Grant Fund — Accounts for grants received for building community homes and related expenses.
- Capital Improvement Fund — Accounts for revenues legally restricted for capital improvements.
- Fire Grant Fund — Accounts for grant received for fire department capital project.

Debt Service Funds:

- Sinking Fund — Accounts for property taxes collected as part of legal judgment assessed against the Town. Judgment has been fully satisfied.

Proprietary Funds

Major Enterprise Funds:

- Union City Municipal Authority Trust — Accounts for activities of the public trust in providing water, wastewater and sanitation services of the Town (blended component unit)

Fiduciary Funds

Agency Fund:

- Municipal Court - Accounts for municipal court bonds and other collections held for the benefit of others awaiting court decisions or remittance to outside entities.

The Town's policy is to eliminate inter-fund transfers and balances in the statement of activities and net assets to avoid the grossing up of balances. Only the residual balances transferred between governmental and business-type activities are reported as internal transfers and internal balances and then offset in the total column in the government-wide statements. Inter-fund transfers and balances between funds are not eliminated in the fund financial statements.

TOWN OF UNION CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, and 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating 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 Town's enterprise fund are charges to customers for sales and services. Operating expenses for the enterprise fund 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 non-operating revenues and expenses.

1.E. Assets, Liabilities, and Fund Equity

Cash and Cash Equivalents - The Town's cash and cash equivalents are considered to be cash on hand, demand deposit accounts, interest bearing checking accounts and time deposit accounts including certificates of deposit with maturities of three months or less from the date of acquisition.

Investments for the Town, as well as for its component units, consist of certificates of deposit maturing beyond three months. Investments are stated at cost, which approximates market value.

Restricted Assets - Restricted assets include assets that are legally restricted as to their use. The primary restricted assets are related to customer utility deposits and trustee accounts restricted for debt service and capital improvements, if any.

Capital Assets - Capital assets consist of land, construction in progress, buildings, improvements, utility property/improvements, vehicles, and equipment. Recorded assets are reported at historical cost or estimated historical cost if actual is unavailable. A capitalization threshold of \$1,000 is used to report capital assets. Donated capital assets, if any, are recorded at estimated fair market value at the date of donation.

The Town had not compiled an inventory of its general capital assets (capital assets other than those used in the business-type activities) prior to July 1, 2008, and accordingly, had not recorded depreciation on those assets. Under the modified cash basis of accounting, assets purchased prior to July 1, 2008, should have been capitalized and depreciated, which would increase the assets, net assets, and expenses of the governmental activities. Depreciation of these exhaustible capital assets would have been recorded as an expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. General capital assets have been recorded prospectively as of July 1, 2008.

The Town has maintained an inventory of assets acquired in the business-type activities (proprietary fund) and has reported depreciation where appropriate.

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

TOWN OF UNION CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1.E. Assets, Liabilities, and Fund Equity (Continued)

The depreciable capital assets are depreciated on a straight-line basis over the assets' estimated useful lives. The range of estimated useful lives by type of asset is as follows:

- Buildings 40 years
- Improvements 10 - 40 years
- Machinery and Equipment 3 - 20 years
- Utility Property and Improvements 10 - 40 years

Due to Depositors - Represents the funds received from customers for their water utility deposits. These deposits are refunded or credited to the customer upon termination of the utility service and payment of all charges due and connected with the service.

Police Bond Liability - Represents municipal court bonds held for individuals awaiting court dates.

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. Note issuance costs, if any, are deferred and amortized over the life of the debt using the straight-line method.

Compensated Absences - As a result of the use of the modified cash basis of accounting, accrued liabilities related to compensated absences (accumulated but unused vacation leave and compensatory time earned but unpaid at year-end), are not reflected in the financial statements. Expenditures/expenses related to compensated absences are recorded when paid. The amount of accrued compensated absences (vacation leave) is not material and therefore has not been reported as a commitment.

Equity Classifications - In the government-wide and proprietary fund financial statements, equity is classified as net assets and displayed in three components:

- a. *Invested in capital assets, net of related debt* - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributed to the acquisition, construction, or improvements of those assets.
- b. *Restricted net assets* - Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- c. *Unrestricted net assets* - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

The Town does not currently have a policy designating first use of restricted net assets prior to the use of unrestricted net assets when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**TOWN OF UNION CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

1.F. Sales Tax Revenue

Sales Tax - The Town presently levies a four cent sales tax on taxable sales within the Town. The sales tax is collected by the Oklahoma Tax Commission and remitted to the Town in the month following receipt by the Tax Commission. The sales tax recorded is allocated one hundred percent to the General Fund. However, one cent, or 25% of the sales tax collected, is allocated for fire services for the Town and is remitted to the Union City Fire Department Fund Service each month as a transfer. Additionally, one-third cent, or 8.33% of the sales tax collected, is allocated to the Union City Municipal Authority, and remitted to the UCMA proprietary fund each month as a transfer.

1.G. Property Tax Revenue

Property Tax - The Town presently levies no property tax. In accordance with State law, a municipality may only levy a property tax to retire general obligation debt approved by the voters and to pay judgments rendered against the Town.

1.H. Use of Estimates

In preparing the Town of Union City's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Any differences in articulating amounts are due to rounding.

NOTE 2. Stewardship, Compliance, and Accountability

2.A. Budgetary Information

The Town prepares its annual operating budget under the provisions of Titles 62 and 68 of the Oklahoma Statutes (Estimate of Needs). In accordance with those provisions, the following process is used to adopt the annual budget:

- In the first week of August, a financial statement is prepared on State prescribed forms for use in determining cash surplus of the General Fund and other "cash" funds of the Town.
- Using the State prescribed forms, an estimate of appropriation needs of the General Fund is prepared which is limited to no more than 90% of prior year actual recurring revenue plus cash surplus.
- The estimate of need forms are approved by the Town Board of Trustees and submitted to the County Excise Board in August.
- The budget for the General Fund becomes final upon County Excise Board approval.

The General Fund, Debt Service Fund, and certain "cash" funds as defined by state law are required to have annual budgets, except funds of public trusts or authorities. The legal level of control at which expenditures may not legally exceed appropriations is by department within a fund. State statutes recognize the following object categories as the minimum legal level of control by department:

- Personal Services
- Maintenance and Operations
- Capital Outlay
- Inter-fund Transfers

**TOWN OF UNION CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

All transfers of appropriations between departments and object categories require approval of the Town Council, and all supplemental appropriations require the approval of the Town Council and the County Excise Board. The budgets for the Special Revenue funds must be submitted on an as needed basis. The Town can only appropriate the cash balance on hand at the beginning of the fiscal year and monies as they are actually received.

NOTE 3. Detailed Notes on all Funds

3.A. Deposits and Investments Risk and Restricted Assets

*Custodial Credit Risk - Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a written deposit policy for custodial credit risk, but *Oklahoma Statutes* requires collateral for all uninsured deposits of municipal funds in financial institutions. As of June 30, 2012, the Town's bank balances of \$218,383 were not exposed to custodial credit risk.*

*Investment Credit Risk - The Town does not have a written investment policy that limits its investment choices other than the limitations stated in the *Oklahoma Statutes*. *Oklahoma Statutes* allow the Town to invest in: (1) full faith and credit, direct obligations of the U. S. Government, its agencies and instrumentalities, and the State of Oklahoma and certain mortgage insured federal debt; (2) certificates of deposits or savings accounts that are either insured or secured with acceptable collateral; (3) negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations; (4) county, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality, or school district; and government money market funds regulated by the SEC. Public trusts created under O.S. Title 60, are not subject to the above investment limitations and are primarily governed by any restrictions in their trust or note indenture,*

Investment Interest Rate Risk - The Town does not have a formal investment policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk - The Town places no limit on the amount it may invest in any one issuer.

**TOWN OF UNION CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

3.A. Deposits and Investments Risk and Restricted Assets (Continued)

Cash and Cash Equivalents - Governmental Funds

	BALANCE JUNE 30, 2011	INCREASE	DECREASE	BALANCE JUNE 30, 2012
<u>GENERAL FUNDS</u>				
<u>UNRESTRICTED:</u>				
General Fund	\$ 32,706	31,329	0	64,035
TOTAL	32,706	31,329	0	64,035
<u>FIRE FUNDS</u>				
<u>UNRESTRICTED:</u>				
Fire Fund	37,929	0	3,273	34,656
TOTAL	37,929	0	3,273	34,656
<u>OTHER FUNDS</u>				
<u>UNRESTRICTED:</u>				
Street & Alley Fund	404	4,100	0	4,504
Police Fund	1,096	472	0	1,568
4 TH Festival Fund	6,172	0	4,149	2,023
TOTAL	7,672	4,572	4,149	8,095
TOTAL UNRESTRICTED	78,307	35,901	7,422	106,786
<u>OTHER FUNDS</u>				
<u>RESTRICTED:</u>				
For Capital Projects	653	15,000	0	15,653
For Debt Service	8	0	8	0
TOTAL RESTRICTED	661	15,000	8	15,653
TOTAL CASH & EQUIVALENTS- GOVERNMENTAL FUNDS	\$ 78,968	50,901	7,430	122,439

**TOWN OF UNION CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

3.A. Deposits and Investments Risk and Restricted Assets (Continued)

Cash and Cash Equivalents - Enterprise Fund

	BALANCE JUNE 30, 2011	INCREASE	DECREASE	BALANCE JUNE 30, 2012
<u>UNRESTRICTED:</u>				
Operating	\$ 119,031	0	44,945	74,086
TOTAL UNRESTRICTED	119,031	0	44,945	74,086
<u>RESTRICTED:</u>				
For Capital Projects	0	0	0	0
For Debt Service	27,702	0	27,702	0
Customer Deposits	21,533	325	0	21,858
TOTAL RESTRICTED	49,235	325	27,702	21,858
TOTAL CASH & EQUIVALENTS- ENTERPRISE FUND	\$ 168,266	325	72,647	95,944

Cash deposits are reported at carrying amounts that reasonable estimate fair value. Cash equivalents include short-term highly liquid investments that are both-

- a. Readily convertible to known amounts of cash
- b. So near their maturity date that they present insignificant risk of changes in value due to changes in interest rates. (Generally, only investment with original maturities of three months or less meets this definition.)

**TOWN OF UNION CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

3.B. Capital Assets

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

Governmental Activities

	Beginning Balance	Increases	Decreases	Ending Balance	Estimated Lives
Capital Assets, not being depreciated:					
Land	\$ 0	0	0	0	
Capital Assets, being depreciated:					
Buildings	346,938	0	0	346,938	40
Improvements	205,388	11,498	0	216,886	10-40
Machinery and Equipment	256,022	73,928	0	329,950	5-10
Total capital assets, being depreciated	808,348	85,425	0	893,774	
Less: Accumulated Depreciation	(111,321)	(70,294)	0	(181,615)	
Governmental activities capital assets, net	\$ 697,027	15,131	0	712,159	

As of June 30, 2012, the governmental funds had no capitalized assets that were not being depreciated or had not been depreciated. Depreciation is computed using the straight-line method of depreciation over the estimated useful lives of the assets. Assets are recorded at cost or their estimated fair market value for those assets where recorded values were not available. The depreciation expense of \$70,294 was not allocated to functions.

Business Type Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, not being depreciated:				
Land and Other Non-depreciable	\$ 65,900	0	0	65,900
Construction in progress	0	0	0	0
Total Capital Assets, not being depreciated	65,900	0	0	65,900
Capital Assets, being depreciated:				
Buildings, Machinery, & Equip	1,600,334	50,739	0	1,651,073
Total capital assets, being depreciated	1,600,334	50,739	0	1,651,073
Less: Accumulated Depreciation	(693,698)	(58,819)	0	(752,517)
Total capital assets, being depreciated, net	906,636	(8,080)	0	898,556
Business-type activities capital assets, net	\$ 972,536	(35,915)	0	964,456

Assets are recorded at cost or their estimated fair market value for those assets where recorded values were not available. Depreciation has been calculated on each class of property using the straight-line method. Depreciation expense was \$58,819 for the year ended June 30, 2012.

Capital Assets, being depreciated:

	06/30/2011	ADDITIONS	DISPOSALS	06/30/2012	Lives
Buildings	\$ 36,339	0	0	36,339	40
Machinery and Equipment	181,467	50,739	0	232,206	5-10
Utility Property and Improvements	1,382,528	0	0	1,382,528	20- 40
Totals	\$ 1,600,334	50,739	0	1,651,073	

**TOWN OF UNION CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

3.C. Long-Term Debt

Governmental Activities – State statutes prohibit the Town from incurring any indebtedness or obligations that would require payment from resources beyond the current fiscal year revenue, without first obtaining voter approval. During the year ended June 30, 2012, the long-term debt, arising from cash transactions, payable from governmental fund resources consisted of the following:

Secured By	Monthly Payment	Interest Rate	Dated	Interest Expense
2011 Dodge Charger	\$ 700.18	4.25%	11/18/2011	533.56
2010 Dodge Charger	674.72	4.25%	12/10/2010	677.46
2010 Dodge Charger	665.62	4.25%	12/10/2010	649.76
2008 Dodge Charger	737.99	4.05%	02/17/2009	89.37
2008 Dodge Charger	741.36	4.87%	08/18/2008	8.39
2007 Ford Crown Victoria	N/A	4.25%	12/16/2010	143.83
	\$			2,102.37

Secured By	Balance July 1, 2011	Paid	Added	Balance June 30, 2012	Current
2011 Dodge Charger	\$ 0	4,368	23,613	19,245	7,734
2010 Dodge Charger	19,149	7,417	0	11,732	7,748
2010 Dodge Charger	18,891	7,338	0	11,553	7,644
2008 Dodge Charger	5,809	5,809	0	0	0
2008 Dodge Charger	1,463	1,463	0	0	0
2007 Ford Crown Victoria	2,472	2,472	0	0	0
Total Governmental Activity	\$ 47,784	28,867	23,613	42,530	23,126

Business-Type Activities — As of June 30, 2012, the long-term debt, arising from cash transactions, and payable from proprietary fund resources consisted of the following:

Due To / Secured By	Monthly Payment	Interest Rate	Dated	Interest Expense
OWRB- Water and Sewer System	\$ 1,067.93		04/06/1994	1,662.82
Bank of Union:				
Union City Municipal Authority Real Estate	1,563.75	4.25%	08/16/2011	5,260.48
2012 JD 31-K Backhoe Loader	650.63	4.25%	12/27/2011	406.74
Scag Turf Tiger Mower	214.74	4.25%	05/08/2012	31.62
Case Farmall Tractor	271.83	4.00%	01/20/2010	123.33
2009 Dodge Pickup	426.61	4.00%	03/13/2009	36.68
	\$			7,521.67

**TOWN OF UNION CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

3.C. Long-Term Debt (Continued)

Due To / Secured By	Balance July 1, 2011	Paid	Added	Balance June 30, 2012	Current
OWRB- Water and Sewer System	\$ 205,609	205,609	0	0	0
Bank of Union:					
Union City Municipal Authority Real Estate	0	10,377	152,221	141,844	12,987
2012 JD 31-K Backhoe Loader	0	3,497	21,933	18,436	7,161
Scag Turf Tiger Mower	0	183	7,239	7,056	2,322
Case Farmall Tractor	4,994	3,139	0	1,855	1,855
2009 Dodge Pickup	3,774	3,774	0	0	0
Total Business Type Activity	\$ 214,377	226,579	181,393	169,191	24,325

Utility Revenues Pledged

The Town had pledged future water, sewer, and sanitation customer revenues, net of specified operating expenses, to repay the \$300,000 note payable to OWRB issued April 1994 listed above. The note was payable from water, sewer, and sanitation customer net revenues and was payable through August 2021. The note was paid off August 17, 2011. The principal balance at that time was \$205,500. Debt service and reserve funds of \$28,771, a new Bank of Union loan of \$152,221, and Municipal Authority operating funds were used for the payoff.

The annual debt service requirements to maturity are as follows:

Governmental Activities:

Year Ending June 30,	Capital Lease Obligation:	
	Principal	Interest
2013	\$ 23,126	1,361
2014	15,963	426
2015	3,443	34
2016	0	0
2017-2021	0	0
2022-2026	0	0
Total	\$ 42,532	1,821

**TOWN OF UNION CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

3.C. Long-Term Debt (Continued)

The annual debt service requirements to maturity are as follows:

Business-Type Activities:

Year Ending June 30,	Capital Lease Obligation		Notes Payable	
	Principal	Interest	Principal	Interest
2013	\$ 11,339	927	12,987	5,778
2014	9,894	490	13,542	5,223
2015	6,115	117	14,129	4,636
2016	0	0	14,737	4,028
2017	0	0	15,388	3,377
2018-2022	0	0	71,060	6,555
2023-2027	0	0	0	0
2028-2031	0	0	0	0
Total	\$ 27,348	1,534	141,843	29,597

3.D. Inter-fund Receivables, Payables, and Transfers

The Town had no inter-fund balances as of June 30, 2012. Transfers between funds and legal entities are comprised of the following and were made for cash flow needs.

Fund	Transfer In	Transfer Out
General Fund	\$ 9,600	89,897
Fire Fund	79,295	11,423
Capital Projects Funds	0	0
Sinking Fund	0	0
Enterprise Fund	22,025	9,600
Totals	\$ 110,920	110,920

Reconciliation to Fund financial Statements:

	Transfers In	Transfers Out	Net Transfers
Governmental Funds	\$ 88,895	101,320	(12,425)
Enterprise Funds	22,025	9,600	12,425
Total	\$ 110,920	110,920	0

**TOWN OF UNION CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 4. Other Notes

4.A. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health and life; and natural disasters. The Town manages these various risks of loss as follows:

- **General Liability, Fleet Coverage, and Physical Property**— Covered through participation in Oklahoma Municipal Assurance Group risk entity pool.
- **Workers' Compensation** — Workers' compensation is covered through participation in the Oklahoma Municipal Assurance Group risk entity pool.
- **Employee's Group Medical** — Covered through participation in Oklahoma Municipal Assurance Group risk entity pool during the reporting year. However, the Town has subsequently changed to a commercial insurance provider for all employee health insurance.

The Town's risk is transferred to the risk entity pool except for claim deductible amounts. The risk pool maintains deposits for claim reserves and other purposes for the benefit of the town. Management believes the insurance coverage listed above is sufficient to preclude any significant uninsured losses to the Town, and such claims have not exceeded the coverage over the past three years.

4.B. Contingencies and Commitments

Federal and State Award Programs - The Town of Union City participates in various federal and state grant/loan programs from year to year. Amounts received or receivable from grantor agencies are often subject to audit and adjustment by the grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund. The amount, if any, of expenditures, which may be disallowed by the grantor, agency cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

Sales Tax Refund Due to Oklahoma Tax Commission - The Town of Union City owes for overcharged sales tax in the amount of initial amount of \$13,495 due to a company being taxed although exempt for manufacturing. The Oklahoma Tax Commission will withhold and apply \$250 from each month's sales tax payment until this is repaid.

4.C. Employee Pension Plans

Firefighters' Retirement Plan — Pursuant to the requirements of Title 11, section 22-102, the Town of Union City participates in the statewide cost-sharing multi-employer defined benefit plan administered by the Oklahoma Firefighter's Pension and Retirement System (OFPRS) on behalf of both paid and volunteer firefighters. The Town has no responsibility or authority for the operation and administration of the pension program nor has it any related liability, except for the current contribution requirements.

The contribution rates for the Town are established by Statute. The Town is required to make annual contributions of \$60 per active volunteer fireman to OFPRS. The plan is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as

**TOWN OF UNION CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

necessary. The Town's contributions to OFPRS were \$840 annually for 2007, 2008, 2009, 2010, 2011, and 2012.

The OFPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to OFPRS, 4545 North Lincoln Blvd., Suite 265, Oklahoma City, OK 73105-3414.

4.C. Subsequent Events

Subsequent events have been evaluated through February 24, 2013, which is the date the financial statements were available to be issued and were released. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.

5. Grants and Contributions Received:

	Total	Operating	Capital
Fire Department funds- State of Oklahoma	\$ 4,413	4,413	0
Police Department donations	1,900	1,900	0
Festival donations and fundraisers	2,600	2,600	0
Police Department grant for police car & intoxilyzer	43,923	0	43,923
Donation received for park improvements	15,000	0	15,000
Capital Improvement grant received	6,750	0	6,750
Fire Department donations and fundraisers	1,118	1,118	0
Miscellaneous	10	10	0
Total	\$ 75,714	10,041	65,673

**TOWN OF UNION CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

6. Prior Period Adjustments

Prior financial statement balances have been corrected because two capital asset exchanges (and the related capital lease liabilities) were not recorded. The changes in the June 30, 2011 financial statements are summarized below:

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
CONDENSED SUMMARY-YEAR ENDED JUNE 30, 2011

	RESTATED	REPORTED	CHANGE
Revenues	539,070	539,070	0
Expenditures-			
Operations	438,259	438,259	0
Capital Outlay	132,489	87,304	45,185
Debt Service	34,562	34,562	0
Total Expenditures	<u>605,310</u>	<u>560,125</u>	<u>45,185</u>
Revenues over (under)			
Expenditures	(66,240)	(21,055)	(45,185)
Other Sources (Uses)-			
Capital Lease Proceeds	45,185	0	45,185
Transfers In	88,428	88,428	0
Transfers Out	(112,326)	(112,326)	0
Net Change in Fund Balances	<u>(44,953)</u>	<u>(44,953)</u>	<u>0</u>
Ending Fund Balance	<u>72,106</u>	<u>72,106</u>	<u>0</u>
Reconcile to The			
Statement of Activities-			
Net Change in Fund Balances	(44,953)	(44,953)	0
Capital Outlay	132,489	87,304	45,185
Depreciation Expense	(51,099)	(51,110)	11
Capital Lease Principal Paid	32,940	32,989	(49)
Capital Lease Proceeds	(45,185)	0	(45,185)
Rounding & Other	2	2	0
Change in Net Assets	<u>24,194</u>	<u>24,232</u>	<u>(38)</u>

**TOWN OF UNION CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

6. Prior Period Adjustments (Continued)

	6/30/2011 RESTATED	6/30/2011 PREVIOUSLY REPORTED	CHANGE
STATEMENT OF NET ASSETS-CONDENSED SUMMARY			
Governmental Activities			
Cash & Equivalents	\$ 78,967	78,967	0
Capital Assets-			
Cost	808,348	790,957	17,391
Accumulated Depreciation	(111,321)	(121,643)	10,322
Net Capital Assets	<u>697,027</u>	<u>669,314</u>	<u>27,713</u>
Total Assets	<u>775,994</u>	<u>748,281</u>	<u>27,713</u>
Payroll Tax Liabilities	6,862	6,862	0
Notes & Capital Leases Payable	47,785	20,034	27,751
Total Liabilities	<u>54,647</u>	<u>26,896</u>	<u>27,751</u>
Net Assets			
Net Investment in Capital Assets	649,242	649,280	(38)
Unrestricted	72,105	72,105	0
Total Net Assets	<u>\$ 721,347</u>	<u>721,385</u>	<u>(38)</u>
STATEMENT OF ACTIVITIES-CONDENSED SUMMARY			
Governmental Activities-Year Ended June 30, 2011			
	RESTATED	REPORTED	
Services	\$ 251,518	251,518	0
Grants	85,815	85,815	0
	<u>337,333</u>	<u>337,333</u>	<u>0</u>
General Revenues-			
Taxes	172,096	172,096	0
Intergovernmental	12,652	12,652	0
Investments	1,081	1,081	0
Other Revenues	15,911	15,911	0
transfers In (Out)	(23,899)	(23,899)	0
Net General Revenues	<u>177,841</u>	<u>177,841</u>	<u>0</u>
Program Expenses-			
Operations	438,259	438,259	0
Interest on Long-Term Debt	1,622	1,573	49
Depreciation Expense-Unallocated	51,099	51,110	(11)
	<u>490,980</u>	<u>490,942</u>	<u>38</u>
Change in Net Assets	24,194	24,232	(38)
Net Assets-Beginning	697,153	697,153	0
Net Assets-Ending	<u>\$ 721,347</u>	<u>721,385</u>	<u>(38)</u>

INTERNAL CONTROL AND COMPLIANCE INFORMATION

JOE BOB SMITH
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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 GOVERNMENT AUDITING STANDARDS

Members of the Town Board of Trustees
Town of Union City, Oklahoma

I have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Union City, Oklahoma, (the "Town"), as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements and have issued my report thereon dated February 24, 2013. The report was modified because: (a) The Town's use of a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America, and (b) My report on the governmental activities financial statements was qualified due to scope limitations, and (c) The Management Discussion and Analysis and the Budgetary Comparison are not presented as required by the Governmental Accounting Standards Board. 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

Management of the Town is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing my audit, I considered the Town'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 Town's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in 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, I identified certain deficiencies in internal control over financial reporting that I consider to be material weaknesses and other deficiencies that I consider to be significant deficiencies.

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. I consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness, referenced as finding 2012-2.

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. I consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies, referenced as findings 2012-1 and 2012-3.

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Compliance and Other Matters

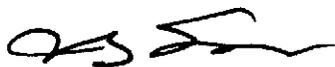
As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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*.

The Town's response to the findings identified in my audit is described in the accompanying schedule of findings and responses. I did not audit the Town's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of the governing body, management, federal and state agencies as listed below and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Federal and State of Oklahoma Agencies:

State Auditor and Inspector - State of Oklahoma
Oklahoma Water Resources Board
Oklahoma Department of Commerce



Joe Bob Smith
Certified Public Accountant

Broken Bow, Oklahoma
February 24, 2013

TOWN OF UNION CITY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2012

Deficiencies of Internal Control, Compliance, and Other Matters

2012-1. Criteria — The Town's management is responsible for internal controls over financial reporting. This includes controls over the fair and complete presentation of the Town's annual financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting). Professional audit standards clearly indicate that the external financial statement auditor cannot perform any part of management's control activities or be a component of the internal controls over financial reporting

Condition — As is the case with many smaller entities, the Town has historically relied extensively on its independent external auditors to provide the needed expertise to assist in the preparation of the financial statements and footnotes as part of its controls over the financial reporting process.

Context — Inability to meet the Town's responsibilities for internal controls over financial reporting.

Effect — As a result of this condition, without reliance on its external auditors, the government lacks the necessary internal controls over the preparation of financial statements in accordance with GAAP.

Cause — Lack of financial reporting system to produce required financial reports.

Recommendation — The Town should consider designing and implementing sufficient internal controls over financial reporting by obtaining the necessary knowledge, expertise, and continuing education to prepare financial statements in accordance with generally accepted accounting principles without reliance on the external financial statement auditor. This could be achieved through employment of qualified accounting staff or the outsourcing of these control activities to a qualified firm other than the external auditor.

Management response — Management's position is that it is not cost effective to remedy this situation at this time.

2012-2. Criteria — A good system of internal control provides for a proper segregation of the accounting functions.

Condition - The Town has a small number of employees that perform the duties that would normally be divided among a large number of employees.

Context — Accounting system functions.

Effect — This could result in more than a low risk that errors or irregularities may occur and not be detected within a timely period.

Cause — Lack of internal control surrounding the accounting functions.

Recommendation — It may not be cost effective to hire the additional administrative staff that would be necessary in order to adequately segregate the responsibilities.

Management response — Management agrees it is not cost effective to hire additional administrative staff to segregate responsibilities.

TOWN OF UNION CITY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2012

2012-3. Criteria — Accounting principles generally accepted in the United States require that general infrastructure assets be capitalized and depreciated, which would increase the assets, net assets, and expenses of the governmental activities of the Town.

Condition — The Town has not developed or maintained detail records of its general fixed assets, including infrastructure assets, to enable it to monitor the usage and account for each asset. In addition, the Town is unable to properly report fixed assets and related depreciation in its governmental activities. The Town has maintained an inventory of assets acquired in the business-type activities (proprietary fund) and has reported depreciation where appropriate.

Context — Lack of internal control and reporting of the Town's general fixed assets.

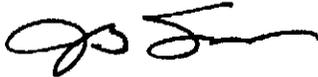
Effect — Assets, net assets, and expenses of the governmental activities of the Town are not accurately reported in the Town's financial statements.

Cause — Lack of internal control surrounding the accounting and reporting of fixed assets related to governmental activities.

Recommendation — The Town should develop current comprehensive detail fixed asset records and maintain them prospectively. These records should be incorporated into the Town's financial reporting records.

Management response — The Town is in the process of preparing detailed fixed asset records.

The above findings (2012-1, 2012-2, and 2012-3) are repeated from the year ended June 30, 2011.



Joe Bob Smith
Certified Public Accountant

Broken Bow, Oklahoma
February 24, 2013