

Town of Union City, Oklahoma

**Financial Statements and Report
of Independent Auditor**

**As of and For the Year Ending
June 30, 2019**

**TOWN OF UNION CITY, OKLAHOMA
FINANCIAL STATEMENTS
JUNE 30, 2019**

TABLE OF CONTENTS

Independent Auditor's Report

Basic Financial Statements

Government Wide Financial Statements

Statement of Net Position – Modified Cash Basis

Statement of Activities – Modified Cash Basis

Fund Financial Statements

Statement of Assets, Liabilities, and Fund Balances – Governmental Funds – Modified Cash Basis

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds – Modified Cash Basis

Reconciliation of Governmental Fund and Government-Wide Financial Statements
Governmental Funds – Modified Cash Basis

Statement of Net Position – Proprietary Funds – Modified Cash Basis

Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds – Modified Cash Basis

Notes to Basic Financial Statements

Internal Control and Compliance Information

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*

Schedule of Findings and Responses

JOE BOB SMITH CPA, PC
CERTIFIED PUBLIC ACCOUNTANTS
P.O. BOX 70 HWY 259 NORTH
BROKEN BOW, OKLAHOMA 74728
(580) 584-6840 FAX (580) 584-7762

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the Town of Union City, Oklahoma, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1.D; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Qualified
Business Type Activities	Unmodified
General Fund	Unmodified
Fire Fund	Unmodified
Aggregate Remaining Fund Information	Unmodified
Enterprise Fund	Unmodified

Basis for Qualified Opinion on Governmental Activities

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 position, and expenses of the governmental activities. The amount by which this departure would affect the assets, net position, and expenses of the governmental activities is not reasonably determinable.

Qualified Opinion

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion on Governmental Activities” paragraph, the financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of the governmental activities of the Town of Union City, Oklahoma, as of June 30, 2019, and the respective changes in modified cash basis financial position thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.D.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position 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, 2019, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.D.

Basis of Accounting

We draw attention to Note 1.D. of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted the Management’s Discussion and Analysis and the Budgetary Comparison that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standard

In accordance with *Government Auditing Standards*, we have also issued our report dated July 13, 2021, on our consideration of the Town of Union City, Oklahoma’s internal control over financial reporting and on our 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Town of Union City, Oklahoma’s internal control over financial reporting and compliance.



Joe Bob Smith

Joe Bob Smith CPA, PC
Certified Public Accountants
Broken Bow, Oklahoma

July 13, 2021

BASIC FINANCIAL STATEMENTS

TOWN OF UNION CITY, OKLAHOMA
Statement of Net Position - Modified Cash Basis
JUNE 30, 2019

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and Cash Equivalents:			
Unrestricted	\$ 1,215,075	537,352	1,752,427
Restricted	6,257	24,131	30,388
Capital Assets:			
Land and Other Non-depreciable Assets	30,718	0	30,718
Other Capital Assets, Net	1,653,266	839,190	2,492,456
Total Assets	2,905,316	1,400,673	4,305,989
Liabilities			
Payroll Tax Liabilities			
Due to Depositors	5,963	22,761	28,724
Long-Term Liabilities:	0	21,453	21,453
Due Within One Year	21,306	17,460	38,766
Due In More Than One Year	21,955	21,516	43,471
Total Liabilities	49,224	83,190	132,414
Net Position			
Net Investment In Capital Assets	1,610,005	800,214	2,410,219
Restricted for:			
Capital Projects	0	0	0
Debt Service	0	0	0
Street and Alley Expenses	6,257	0	6,257
Unrestricted	1,239,830	517,269	1,757,099
Total Net Position	\$ 2,856,092	1,317,483	4,173,575

See accompanying notes to basic financial statements.

TOWN OF UNION CITY, OKLAHOMA
Statement of Activities - Modified Cash Basis
For the Year Ending June 30, 2019

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
General Government	\$ 525,040	46,224	6,565	0	(472,251)	0	(472,251)
Licenses and Fees	0	304,569	0	0	304,569	0	
Police	670,303	454,068	0	0	(216,235)	0	(216,235)
Fire	154,127	2,028	7,600	0	(144,499)	0	(144,499)
Streets	25,165	0	0	0	(25,165)	0	(25,165)
Community Service	12,306	0	7,589	0	(4,717)	0	(4,717)
Interest on Long-Term Debt	1,731	0	0	0	(1,731)	0	(1,731)
Depreciation Expense-Unallocated	212,643	0	0	0	(212,643)	0	(212,643)
Total Governmental Activities	1,601,315	806,889	21,754	0	(772,672)	0	(772,672)
Business-Type Activities:							
Water, Sewer & Sanitation	822,710	851,757	0	0	0	29,047	29,047
Other	0	10,756	0	0	0	10,756	10,756
Interest on Long-Term Debt	2,354	0	0	0	0	(2,354)	(2,354)
Total Business-Type Activities	825,064	862,513	0	0	0	37,449	37,449
Total Primary Government	\$ 2,426,379	1,669,402	21,754	0	(772,672)	37,449	(735,223)
General Revenues:							
Taxes							
Intergovernmental Revenue					1,140,665	0	1,140,665
Investment Income					18,207	0	18,207
Miscellaneous Revenues					11,586	0	11,586
Rounding & Other					30,760	0	30,760
Capital Lease Proceeds					(56)	0	(56)
Gain (Loss) on Sale of Assets					0	0	0
Transfers-Internal Activity					(77,233)	77,233	0
Total General Revenues and Transfers					1,124,129	77,233	1,201,362
Change in Net Position					351,457	114,682	466,139
Net Position-Beginning					863,911	1,202,801	2,066,712
Net Position-Ending					\$ 1,215,368	1,317,483	2,532,851

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, 2019

	General Fund	Fire Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and Cash Equivalents				
Unrestricted	\$ 511,556	171,553		1,215,074
Restricted	0	0	531,965	
Due from other funds	0	0	6,257	6,257
			0	0
Total Assets	<u>511,556</u>	<u>171,553</u>	<u>538,222</u>	<u>1,221,331</u>
Liabilities				
Payroll tax liabilities payable	5,963	0	0	5,963
Due to other funds	0	0	0	0
Total Liabilities	<u>5,963</u>	<u>0</u>	<u>0</u>	<u>5,963</u>
Fund Balances				
Restricted for:				
Capital Projects	0	0	0	0
Debt Service	0	0	0	0
Street and Alley	0	0	0	0
Committed for:			6,257	6,257
Culture and Recreation	0	0		
Capital Projects			12,757	12,757
Assigned to:			519,208	519,208
Fire Department	0	171,553		
Unassigned	505,593	0	0	171,553
			0	505,593
Total Fund Balances	<u>505,593</u>	<u>171,553</u>	<u>538,222</u>	<u>1,215,368</u>
Total Liabilities and Fund Balances	<u>\$ 511,556</u>	<u>171,553</u>	<u>538,222</u>	<u>1,221,331</u>

See accompanying notes to basic financial statements.

TOWN OF UNION CITY, OKLAHOMA
Statement of Revenues, Expenditures and Change in Fund Balance
Governmental Funds - Modified Cash Basis
For the Year Ending June 30, 2019

	General Fund	Fire Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ 1,140,665	0	0	1,140,665
Intergovernmental	0	0	18,207	18,207
Fines and Forfeitures	484,068	0	0	484,068
Licenses, Permits, and Fees	304,569	0	0	304,569
Charges for Services	46,224	2,028	0	48,252
Investment Income	8,411	0	3,175	11,586
Donations and Fundraisers	6,565	5,560	7,589	19,714
Grants	0	2,000	0	2,000
Miscellaneous Other Revenues	30,720	40	0	30,760
Total Revenues	<u>2,021,222</u>	<u>9,628</u>	<u>28,971</u>	<u>2,059,821</u>
Expenditures				
Current:				
General Government	524,657	0	383	525,040
Public Safety:				
Police and Court	670,303	0	0	670,303
Fire	0	154,127	0	154,127
Streets	0	0	25,165	25,165
Community Service & Other	4,983	0	7,323	12,306
Capital Outlay	306,506	151,165	0	457,671
Debt Service-Interest	0	0	0	0
Debt Service-Principal	22,403	0	0	22,403
Total Expenditures	<u>1,528,852</u>	<u>305,292</u>	<u>32,871</u>	<u>1,867,015</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>492,370</u>	<u>(295,664)</u>	<u>(3,900)</u>	<u>192,806</u>
Other Financing Sources (Uses)				
Capital Lease Proceeds	63,938	0	0	63,938
Proceeds From Sale of Assets	200	0	0	200
Transfers In	0	302,113	515,687	817,800
Transfers Out	(925,052)	0	0	(925,052)
Total Other Financing Sources (Uses)	<u>(860,914)</u>	<u>302,113</u>	<u>515,687</u>	<u>(43,114)</u>
Net Change in Fund Balances	(368,544)	6,449	511,787	149,692
Fund Balances - Beginning	874,137	165,104	26,435	1,065,676
Fund Balances - Ending	<u>\$ 505,593</u>	<u>171,553</u>	<u>538,222</u>	<u>1,215,368</u>

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, 2019

Reconciliation to Statement of Net Position:

Fund balances of governmental funds	\$	1,215,368
<p>Amounts reported for governmental activities in the Statement of Net Position are different because: Capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds:</p>		
Capital assets-net		1,653,266
<p>Some liabilities are not due and payable in the current period and, therefore are not reported in the funds:</p>		
Capital debt obligations		(43,261)
Other difference		30,719
Net position of governmental activities	\$	<u><u>2,856,092</u></u>

Reconciliation to Statement of Activities:

Net change in fund balances of governmental funds	\$	149,962
<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		457,671
Depreciation expense		(212,643)
Gain or (Loss) on disposal of capital assets		0
Proceeds from 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 Position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position:</p>		
Capital Lease Proceeds		(63,938)
Capital lease principal payments		22,403
Rounding & other		0
Change in net position of governmental activities	\$	<u><u>(1,998)</u></u> <u><u>351,457</u></u>

See accompanying notes to basic financial statements.

TOWN OF UNION CITY, OKLAHOMA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS-MODIFIED CASH BASIS
JUNE 30, 2019

	ENTERPRISE FUND MUNICIPAL AUTHORITY <u>2019</u>
CURRENT ASSETS:	
CASH AND EQUIVALENTS-UNRESTRICTED	\$ 537,352
TOTAL CURRENT ASSETS	<u>537,352</u>
NON-CURRENT ASSETS:	
CASH AND EQUIVALENTS-RESTRICTED	24,131
CAPITAL ASSETS (NET OF ACCUMULATED DEPRECIATION)	839,190
TOTAL NON-CURRENT ASSETS	<u>863,321</u>
TOTAL ASSETS	<u><u>1,400,673</u></u>
CURRENT LIABILITIES:	
ACCRUED PAYROLL TAX LIABILITIES	22,761
CURRENT NOTES PAYABLE	17,460
TOTAL CURRENT LIABILITIES	<u>40,221</u>
NON-CURRENT LIABILITIES:	
CUSTOMERS DEPOSITS	21,453
NOTES AND CAPITAL LEASES PAYABLE	38,976
LESS-CURRENT NOTES	(17,460)
TOTAL NON-CURRENT LIABILITIES	<u>42,969</u>
TOTAL LIABILITIES	<u>83,190</u>
NET POSITION:	
NET INVESTMENT IN CAPITAL ASSETS	838,518
UNRESTRICTED (DEFICIT)	478,965
TOTAL NET POSITION	<u>1,317,483</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 1,400,673</u></u>

SEE ACCOMPANYING NOTES TO BASIC FINANCIAL STATEMENTS

TOWN OF UNION CITY, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS-MODIFIED CASH BASIS
YEAR ENDED JUNE 30, 2019

	ENTERPRISE FUND MUNICIPAL AUTHORITY <hr/> 2019 <hr/>
OPERATING REVENUES:	
WATER AND SEWER REVENUES	\$ 851,757
OTHER REVENUES	10,756
TOTAL OPERATING REVENUES	<hr/> 862,513 <hr/>
OPERATING EXPENSES:	
WATER PURCHASES	418,421
SANITATION SERVICES	59,564
PERSONAL SERVICE	110,093
SUPPLIES AND REPAIRS	138,018
FUEL AND TRANSPORTATION	9,491
DEPRECIATION EXPENSE	54,715
INSURANCE	1,117
OFFICE AND OTHER EXPENSES	9,098
PROFESSIONAL FEES	12,285
PAYROLL TAXES	9,908
TOTAL OPERATING EXPENSES	<hr/> 822,710 <hr/>
OPERATING INCOME (LOSS)	39,803
NON-OPERATING REVENUES & (EXPENSES):	
INTEREST EXPENSE	(2,354)
TOTAL NON-OPERATING REVENUES (EXPENSES)	<hr/> (2,354) <hr/>
INCOME (LOSS) BEFORE CONTRIBUTIONS & TRANSFERS	37,449
CAPITAL CONTRIBUTIONS & TRANSFERS:	
TRANSFERS IN (OUT)	77,233
TOTAL CAPITAL CONTRIBUTIONS AND TRANSFERS	<hr/> 77,233 <hr/>
CHANGE IN NET ASSETS- INCREASE (DECREASE)	114,682
NET POSITION-BEGINNING	1,202,801
NET POSITION-ENDING	<hr/> \$ 1,317,483 <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, 2019

	ENTERPRISE FUND MUNICIPAL AUTHORITY 2019
Cash flow from operating activities:	
Cash received from customers	\$ 862,513
Cash paid to suppliers	(616,003)
Cash paid for personal services	(110,093)
Cash paid for other operating expenses	(31,101)
Interest paid	(2,354)
Transfers	77,233
Net cash provided (used) by operating activities	180,195
Cash flow from noncapital financing activities:	
Net cash provided (used) by noncapital financing activities	0
Cash flow from capital and related financing activities:	
Principal paid on notes and leases payable	(16,411)
Net cash provided (used) by capital and related financing activities	(16,411)
Cash flow from investing activities:	
Other changes in net position (Rounding)	1
Net cash provided (used) by investing activities	1
Cash flow from non-cash transfer activities:	
Net cash provided (used) by non-cash transfer activities	0
Net increase (decrease) in cash and equivalents	163,785
Cash and equivalents, beginning of year	397,698
Cash and equivalents, end of year	\$ 561,483

TOWN OF UNION CITY, OKLAHOMA
 STATEMENT OF CASH FLOWS-PROPRIETARY FUNDS
 MODIFIED CASH BASIS
 YEAR ENDED JUNE 30, 2019

	ENTERPRISE FUND MUNICIPAL AUTHORITY <u>2019</u>
Reconciliation of change in net position to net cash provided by operating activities	
Change in net position	\$ 114,682
Adjustments to reconcile change in net position to net cash provided by operating activities:	
Depreciation and amortization	54,715
Increase (decrease) in accrued liabilities	10,915
Increase (decrease) in customer deposits	(117)
Total adjustments	<u>65,513</u>
Net cash provided (used) by operating activities	<u>\$ 180,195</u>
Cash and equivalents-unrestricted	\$ 537,352
Cash and equivalents-restricted	24,131
Total cash and equivalents, end of year	<u>\$ 561,483</u>

TOWN OF UNION CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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 ("GASB") Statements No. 14 and No. 61.

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.

Adoption of Accounting Principles

The Town has implemented the following financial accounting and reporting standards issued by GASB:

Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34.*

Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*

TOWN OF UNION CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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. The Trust is blended into the Government Wide Financial Statements.

1.C. Basis of Presentation

Government-Wide Financial Statements - The Statement of Net Position 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.

Fund Financial Statements - Separate financial statements are provided for governmental funds, proprietary funds, fiduciary funds, and fiduciary component units, even though the fiduciary funds 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.

TOWN OF UNION CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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 United States generally accepted accounting principles (GAAP).

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 Position 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. The 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
- payroll tax related 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, 2019**

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.
- CDBG Grant Fund — Accounts for grants received for building community homes and related expenses.

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 position 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, 2019

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 position, 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 Position. 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, 2019

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 position. 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 position and displayed in the following components:

- a. *Net Investment in capital assets* - *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 position* - *Consists of net position 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 position* - *All other net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."*

TOWN OF UNION CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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

The governmental fund types classify fund balances as follows (when they appear on the financial statements):

Non-spendable Fund Balance—This 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.

Inventories—portion of fund balance that is not an available resource because it represents the year-end balance of ending inventories, which are not spendable resources.

Noncurrent receivable—portion of fund balance that is not an available resource because it represents a receivable that will not be collected in the next fiscal year and therefore is not a spendable resource.

Restricted Fund Balance—This classification includes revenue sources that are restricted to specific purposes externally imposed by creditors, grantors or imposed by law.

Restricted by State Statute—portion of fund balance that is restricted by State Statute.

Restricted by creditor or grant agreements.

Committed Fund Balance—portion of fund balance that can only be used for specific purpose imposed by majority vote of the Town's Board of Trustees (the government's highest level of decision-making authority). Any changes or removal of specific purposes requires majority action by the Board of Trustees.

Assigned Fund Balance—portion of fund balance that has been budgeted by the Board of Trustees.

Unassigned Fund Balance—portion of fund balance that has not been restricted, committed or assigned for a specific purpose.

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

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 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.

TOWN OF UNION CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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 is 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

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.

TOWN OF UNION CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

2.B. Deferred outflows/inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources expense/expenditure) until then. The Town currently does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. At this time, the Town has no transactions that meet the definition of deferred inflows of resources

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, 2019, the Town's bank balances of \$1,469,375 were exposed to custodial credit risk. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. The excess funds were at one bank and were not collateralized.

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, 2019

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.)

3.C. Long-Term Debt

Business-Type Activities — As of June 30, 2019, 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
Bank of Union: Union City Municipal Authority Real Estate	\$ 1,563.75	4.25%	08/16/2011	2,354
	\$			<u>2,354</u>

3.C. Long-Term Debt

Due To / Secured By	Balance June 30, 2018	Paid	Added	Balance June 30, 2019	Current
Bank of Union: Union City Municipal Authority Real Estate	\$ 55,387	16,411	0	38,976	17,460
Total Business Type Activity	<u>\$ 55,387</u>	<u>16,411</u>	<u>0</u>	<u>38,976</u>	<u>17,460</u>

**TOWN OF UNION CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

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		Totals
	Principal	Interest	Principal	Interest	
2020	0	0	17,460	1,305	18,765
2021	0	0	16,038	549	16,587
2022	0	0	5,478	206	5,684
2023-2027	0	0	0	0	0
2028-2032	0	0	0	0	0
2033-2037	0	0	0	0	0
Total	\$ 0	0	38,976	2,060	41,036

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.

TOWN OF UNION CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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.

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 necessary. The Town's contributions to OFPRS were \$840 annually for 2013 through 2019.

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.

All full-time firefighters who are hired before age 45 are eligible to participate in the system. The pension plan provides pension benefits, as well as death and disability benefits. A member may retire after 20 years of service; however, a member who became a participant after January 1, 1981 may retire after reaching age 50 with the attainment of 20 years' service (normal retirement) and is entitled to pension payments for the remainder of his/her life equal to 2.5% of final average salary (most recent 30 months prior to retirement) times years of service. Members who terminate before ten years of service are entitled to a refund of employee contributions without provision for interest earnings, while members who terminate after ten years of service are entitled to 2.5% of final average salary times years of service.

In July 1987, the Oklahoma State Legislature passed House Bill 1473 which amended some statutes relating to the system. This bill changed the normal retirement date to the date a participant completes 20 years of credited service, regardless of age. The bill also provided for a \$4,000 death benefit, in addition to any survivor's pension benefits under the system, to the beneficiaries of all members of the system. The bill also made several other changes which mainly allow the system more flexibility regarding transfers from other state retirement systems and rejoining the system after withdrawal. These changes went into effect July 20, 1987. The Oklahoma State Legislature is required by statute to make such appropriations as necessary to insure that benefit payments are made.

TOWN OF UNION CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

4.D. Subsequent Events

Subsequent events have been evaluated through July 13, 2021, 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.

4.D. Other Notes

Due From Other Funds or Governments

Receivables and payables to other funds or governments arising from cash transactions or events are recorded in the financial statements as a modification to the cash basis of accounting.

Government-Wide Statements

In the government-wide financial statements, capital assets arising from cash transactions or events are accounted for as assets in the Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable.

Fund Financial Statements

In the fund financial statements, capital assets arising from cash transactions or events acquired for use in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets acquired for use in proprietary fund operations are accounted for the same as in the government-wide statements.

Long-Term Debt

All long-term bonds, notes, and other debt arising from cash transactions or events to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements.

Long-term debt arising from cash transactions or events of governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources, and payment of principal and interest is reported as expenditures. The accounting for proprietary funds is the same in the fund financial statements as the treatment in the government-wide statements.

The City has no formal minimum fund balance policies or any formal stabilization arrangements in place.

INTERNAL CONTROL AND COMPLIANCE INFORMATION

**JOE BOB SMITH CPA, PC
CERTIFIED PUBLIC ACCOUNTANTS
P.O. BOX 70 HWY 259 NORTH
BROKEN BOW, OKLAHOMA 74728
(580) 584-6840 FAX (580) 584-7762**

**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

We 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, 2019, which collectively comprise the Town's basic financial statements and have issued our report thereon dated July 13, 2021. 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, (b) Our 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. 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

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness, referenced as finding 2019-2.

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. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies, referenced as findings 2019-1 and 2019-3.

JOE BOB SMITH CPA, PC
CERTIFIED PUBLIC ACCOUNTANTS
P.O. BOX 70 HWY 259 NORTH
BROKEN BOW, OKLAHOMA 74728
(580) 584-6840 FAX (580) 584-7762

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, 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 objective 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 are required to be reported under *Government Auditing Standards*.

Town of Union City, Oklahoma's Response to Findings

The Town's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Joe Bob Smith

Joe Bob Smith CPA, PC
Certified Public Accountants

Broken Bow, Oklahoma
July 13, 2021

TOWN OF UNION CITY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2019

Deficiencies of Internal Control, Compliance, and Other Matters

2019-1. 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 the modified cash basis of accounting. The preparation of financial statements in accordance with the modified cash basis of accounting 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.

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

Effect — As a result of this condition the government lacks the necessary internal controls over the preparation of financial statements in accordance with the modified cash basis of accounting.

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 skill, knowledge, and experience to prepare financial statements in accordance with the modified cash basis of accounting 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 or individual other than the external auditor.

Management response — Management will outsource the functions of overseeing the preparation of the financial statements, approving journal entries, preparing reconciliations, and preparing depreciation schedules to an individual with the necessary skill, knowledge, and experience to oversee these services. The Town's bookkeeper will assist in overseeing these services.

2019-2. 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 — The Town should have existing office staff check each other's accounting related work to the extent possible if it is not possible to hire 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 due to budget considerations. Management will see that existing office staff checks each other's accounting related work as much as possible.

TOWN OF UNION CITY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2019

2019-3. 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 (2019-1, 2019-2, and 2019-3) are repeated from the year ended June 30, 2018.



Joe Bob Smith

Joe Bob Smith CPA, PC
Certified Public Accountants

Broken Bow, Oklahoma
July 13, 2021