

Town of Union City, Oklahoma

**Financial Statements and Report
of Independent Auditor**

**As of and For the Year Ending
June 30, 2011**

**TOWN OF UNION CITY, OKLAHOMA
FINANCIAL STATEMENTS
JUNE 30, 2011**

TABLE OF CONTENTS

Independent Auditor's Report

Basic Financial Statements

Government Wide Financial Statements

Statement of Net Assets – 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 Fund Net Assets – Proprietary Funds – Modified Cash Basis

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

Statement of Cash Flows – Proprietary Funds – Modified Cash Basis

Statement of Fiduciary Net Assets – Fiduciary Funds - Modified Cash Basis

Notes to Basic Financial Statements

Unaudited Required Supplementary Information

Unaudited Budgetary Comparison Schedule – Major Governmental Funds – Modified Cash Basis

Other Supplementary Information

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

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

Statement of Changes in Net Assets – Fiduciary Funds – Modified Cash Basis

Schedule of Federal and State Awards and Donations Received – Modified Cash Basis

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
CERTIFIED PUBLIC ACCOUNTANT
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

I have audited the accompanying financial statements of the business-type activities, each major fund, and the aggregate remaining fund information and I was engaged to audit the governmental activities of the Town of Union City, Oklahoma, as of and for the year ended June 30, 2011, 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.

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, because of the effects of the matter discussed in the preceding paragraph, the scope of my work was not sufficient to enable me to express, and I do not express an opinion on the financial statements referred to above of the governmental activities of the Town of Union City, Oklahoma, as of June 30, 2011, 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, 2011, 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.

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

Town of Union City, Oklahoma Page 2

In accordance with *Government Auditing Standards*, I have also issued my report dated July 23, 2012, 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.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information as listed in the table of contents be presented to supplement 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. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

The Town of Union City has not presented the Management's Discussion and Analysis 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.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Union City's basic financial statements. The accompanying combining and individual non-major governmental funds, statement of changes in net assets-fiduciary funds, and schedule of federal and state awards and donations received as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Town of Union City, Oklahoma. The accompanying combining and individual non-major governmental funds, statement of changes in net assets-fiduciary funds, and schedule of federal and state awards and donations received are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, except for the effects on the supplemental information of the matters discussed in above paragraphs four and five, the information is fairly stated in all material respects in relation to the basic financial statements as a whole on the basis of accounting described in Note 1.D.



Joe Bob Smith
Certified Public Accountant
Broken Bow, Oklahoma

July 23, 2012

BASIC FINANCIAL STATEMENTS

TOWN OF UNION CITY, OKLAHOMA
Statement of Net Assets - Modified Cash Basis
JUNE 30, 2011

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and Cash Equivalents:			
Unrestricted	\$ 78,307	119,031	197,338
Restricted	660	49,235	49,895
Capital Assets:			
Land and Other Non-depreciable Assets	0	65,900	65,900
Other Capital Assets, Net	669,314	906,636	1,575,950
Deferred Charges, Net	0	8,011	8,011
Total Assets	748,281	1,148,813	1,897,094
Liabilities			
Payroll Tax Liabilities	6,862	15,132	21,994
Due to Depositors	0	18,279	18,279
Long-Term Liabilities:			
Due Within One Year	19,377	16,526	35,903
Due In More Than One Year	657	197,851	198,508
Total Liabilities	26,896	247,788	274,684
Net Assets			
Invested In Capital Assets, Net of Related Debt	649,280	758,159	1,407,439
Restricted for Capital Projects	0	0	0
Restricted for Debt Service	0	27,702	27,702
Unrestricted	72,105	115,164	187,269
Total Net Assets	\$ 721,385	901,025	1,622,410

See accompanying notes to basic financial statements.

TOWN OF UNION CITY, OKLAHOMA
Statement of Activities - Modified Cash Basis
For the Year Ending June 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
General Government	\$ 107,223	84,245	21,539	51,839	50,400	0	50,400
Police	243,611	167,273	0	0	(76,338)	0	(76,338)
Fire	70,835	0	6,698	0	(64,137)	0	(64,137)
Streets	12,481	0	0	0	(12,481)	0	(12,481)
Community Service	4,109	0	5,739	0	1,630	0	1,630
Interest on Long-Term Debt	1,573	0	0	0	(1,573)	0	(1,573)
Depreciation Expense-Unallocated	51,110	0	0	0	(51,110)	0	(51,110)
Total Governmental Activities	490,942	251,518	33,976	51,839	(153,609)	0	(153,609)
Business-Type Activities:							
Water / Sewer	296,935	260,903	0	0	0	(36,032)	(36,032)
Sanitation	33,365	41,681	0	0	0	8,316	8,316
Interest on Long-Term Debt	6,312	0	0	0	0	(6,312)	(6,312)
Total Business-Type Activities	336,612	302,584	0	0	0	(34,028)	(34,028)
Total Primary Government	\$ 827,554	554,102	33,976	51,839	(153,609)	(34,028)	(187,637)
General Revenues:							
Taxes:							
Sales Tax					123,633	0	123,633
Franchise Tax					41,893	0	41,893
Other Taxes					6,570	0	6,570
Intergovernmental Revenue					12,652	0	12,652
Investment Income					1,081	1,392	2,473
Miscellaneous Revenues					15,907	0	15,907
Rounding					4	0	4
Gain (Loss) on Sale of Assets					0	0	0
Transfers-Internal Activity					(23,899)	23,899	0
Total General Revenues and Transfers					177,841	25,291	203,132
Change in Net Assets					24,232	(8,737)	15,495
Net Assets-Beginning					697,153	909,762	1,606,915
Net Assets-Ending					\$ 721,385	901,025	1,622,410

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, 2011

	General Fund	Fire Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and Cash Equivalents				
Unrestricted	\$ 32,706	37,929	7,672	78,307
Restricted	0	0	661	661
Total Assets	32,706	37,929	8,333	78,968
Liabilities				
Payroll tax liabilities payable	6,862	0	0	6,862
Total Liabilities	6,862	0	0	6,862
Fund Balances				
Restricted for:				
Capital Projects	0	0	653	653
Debt Service	0	0	8	8
Committed for:				
Street and Alley			404	404
Culture and Recreation			6,172	6,172
Assigned to:				
Fire Department	0	37,929	0	37,929
Unassigned	25,844	0	1,096	26,940
Total Fund Balances	25,844	37,929	8,333	72,106
Total Liabilities and Fund Balances	\$ 32,706	37,929	8,333	78,968

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, 2011

	General Fund	Fire Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ 172,097	0	0	172,097
Intergovernmental	0	0	12,652	12,652
Fines and Forfeitures	167,273	0	0	167,273
Licenses and Permits	82,444	190	0	82,634
Charges for Services	0	593	1,018	1,611
Investment Income	711	343	27	1,081
Donations and Grants	21,539	6,698	57,578	85,815
Miscellaneous other revenues	15,892	0	15	15,907
Total Revenues	459,956	7,824	71,290	539,070
Expenditures				
Current:				
General Government	107,223	0	0	107,223
Public Safety:				
Police and Court	242,037	0	1,574	243,611
Fire	6,709	64,126	0	70,835
Streets	0	0	12,481	12,481
Community Service & Other	0	0	4,109	4,109
Capital Outlay	6,978	32,229	48,097	87,304
Debt Service	34,562	0	0	34,562
Total Expenditures	397,509	96,355	66,261	560,125
Excess (Deficiency) of Revenues Over (Under) Expenditures	62,447	(88,531)	5,029	(21,055)
Other Financing Sources (Uses)				
Capital Lease Proceeds	0	0	0	0
Proceeds From Sale of Assets	0	0	0	0
Transfers In	4,878	83,550	0	88,428
Transfers Out	(95,074)	(10,638)	(6,614)	(112,326)
Total Other Financing Sources (Uses)	(90,196)	72,912	(6,614)	(23,898)
Net Change in Fund Balances	(27,749)	(15,619)	(1,585)	(44,953)
Fund Balances - Beginning	53,593	53,548	9,918	117,059
Fund Balances - Ending	\$ 25,844	37,929	8,333	72,106

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, 2011

Reconciliation to Statement of Net Assets:

Fund balances of governmental funds	\$	72,106
<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		790,956
Accumulated depreciation		(121,643)
<p>Some liabilities are not due and payable in the current period and, therefore are not reported in the funds:</p>		
Capital debt obligation payments		(20,034)
Net assets of governmental activities	\$	<u><u>721,385</u></u>

Reconciliation to Statement of Activities:

Net change in fund balances of governmental funds	\$	(44,953)
<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		87,304
Depreciation expense		(51,110)
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		0
Capital lease principal payments		32,989
Rounding		2
Change in net assets of governmental activities	\$	<u><u>24,232</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, 2011

	ENTERPRISE FUND MUNICIPAL AUTHORITY <hr/> 2011 <hr/>
CURRENT ASSETS:	
CASH AND EQUIVALENTS-UNRESTRICTED	\$ 119,031
TOTAL CURRENT ASSETS	<hr/> 119,031 <hr/>
 NON-CURRENT ASSETS:	
CASH AND EQUIVALENTS-RESTRICTED	49,235
DEFERRED CHARGES-NET	8,011
CAPITAL ASSETS (NET OF ACCUMULATED DEPRECIATION)	972,536
TOTAL NON-CURRENT ASSETS	<hr/> 1,029,782 <hr/>
TOTAL ASSETS	<hr/> 1,148,813 <hr/>
 CURRENT LIABILITIES:	
ACCRUED PAYROLL TAXES	15,132
CURRENT NOTES PAYABLE	16,526
TOTAL CURRENT LIABILITIES	<hr/> 31,658 <hr/>
 NON-CURRENT LIABILITIES:	
CUSTOMERS DEPOSITS	18,279
NOTES AND CAPITAL LEASES PAYABLE	214,377
LESS-CURRENT NOTES	(16,526)
TOTAL NON-CURRENT LIABILITIES	<hr/> 216,130 <hr/>
TOTAL LIABILITIES	<hr/> 247,788 <hr/>
 NET ASSETS:	
INVESTED IN CAPITAL ASSETS-NET OF RELATED DEBT	758,159
RESTRICTED FOR DEBT SERVICE	27,702
UNRESTRICTED (DEFICIT)	115,164
TOTAL NET ASSETS	<hr/> 901,025 <hr/>
TOTAL LIABILITIES AND NET ASSETS	<hr/> \$ 1,148,813 <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, 2011

	ENTERPRISE FUND MUNICIPAL AUTHORITY <hr/> 2011 <hr/>
OPERATING REVENUES:	
WATER AND SEWER REVENUES	\$ 249,994
SANITATION FEES	41,681
OTHER REVENUES	10,909
TOTAL OPERATING REVENUES	<hr/> 302,584 <hr/>
OPERATING EXPENSES:	
WATER PURCHASES	114,255
SANITATION SERVICES	33,365
PERSONAL SERVICE	61,065
BAD DEBT EXPENSE	143
SUPPLIES AND REPAIRS	9,816
FUEL AND TRANSPORTATION	4,649
DEPRECIATION EXPENSE	56,220
INSURANCE	6,753
OFFICE AND OTHER EXPENSES	20,289
PROFESSIONAL FEES	5,068
PAYROLL TAXES	10,216
LICENSE, DUES, AND FEES	2,431
UTILITIES AND TELEPHONE	6,030
TOTAL OPERATING EXPENSES	<hr/> 330,300 <hr/>
OPERATING INCOME (LOSS)	(27,716)
NON-OPERATING REVENUES & (EXPENSES):	
INTEREST INCOME	1,392
INTEREST EXPENSE	(6,312)
TOTAL NON-OPERATING REVENUES (EXPENSES)	<hr/> (4,920) <hr/>
INCOME (LOSS) BEFORE CONTRIBUTIONS & TRANSFERS	(32,636)
CAPITAL CONTRIBUTIONS & TRANSFERS:	
TRANSFERS IN (OUT)	<hr/> 23,899 <hr/>
CHANGE IN NET ASSETS- INCREASE (DECREASE)	(8,737)
NET ASSETS-BEGINNING	909,762
NET ASSETS-ENDING	<hr/> \$ 901,025 <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, 2011**

	ENTERPRISE FUND MUNICIPAL AUTHORITY <hr/> 2011 <hr/>
Cash flow from operating activities:	
Cash received from customers	\$ 307,209
Cash paid to suppliers	(175,289)
Cash paid for personal services	(68,440)
Cash paid for other operating expenses	(28,533)
Non operating receipts & expenses	(4,626)
Net cash provided (used) by operating activities	<hr/> 30,321 <hr/>
Cash flow from noncapital financing activities:	
Transfers from (to) other funds	23,899
Net cash provided (used) by noncapital financing activities	<hr/> 23,899 <hr/>
Cash flow from capital and related financing activities:	
Interest paid on notes and leases payable	(6,312)
Principal paid on notes and leases payable	(17,342)
Acquisition and construction of capital assets	(3,574)
Customer deposit refunds	(4,423)
Customer deposit receipts	2,804
Net cash provided (used) by capital and related financing activities	<hr/> (28,847) <hr/>
Cash flow from investing activities:	
Investment and interest income	1,392
Net cash provided (used) by investing activities	<hr/> 1,392 <hr/>
Cash flow from non-cash transfer activities:	
Net cash provided (used) by non-cash transfer activities	<hr/> 0 <hr/>
Net increase (decrease) in cash and equivalents	<hr/> 26,765 <hr/>
Cash and equivalents, beginning of year	141,501
Cash and equivalents, end of year	<hr/> \$ 168,266 <hr/>

**TOWN OF UNION CITY, OKLAHOMA
STATEMENT OF CASH FLOWS-PROPRIETARY FUNDS
MODIFIED CASH BASIS
YEAR ENDED JUNE 30, 2011**

**ENTERPRISE FUND
MUNICIPAL
AUTHORITY
2011**

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

Change in net assets	\$	(8,737)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Non-operating (income) expense		(18,979)
Depreciation and amortization		56,220
Increase (decrease) in accrued liabilities		1,089
(Increase) decrease in other assets		728
Total adjustments		39,058
Net cash provided (used) by operating activities	\$	30,321
Cash and equivalents-unrestricted	\$	119,031
Cash and equivalents-restricted		49,235
Total cash and equivalents, end of year	\$	168,266

TOWN OF UNION CITY, OKLAHOMA
Statement of Fiduciary Net Assets
Fiduciary Funds - Modified Cash Basis
June 30, 2011

	Agency Fund Municipal Court
Assets	
Cash and Cash Equivalents	\$ <u>1,308</u>
Total Assets	<u>1,308</u>
Liabilities	
Police Bond Liability	<u>1,308</u>
Total Liabilities	<u><u>1,308</u></u>

See accompanying notes to basic financial statements.

TOWN OF UNION CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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 which 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 which 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 nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent on fees and charges for support. 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, 2011

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 interfund 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 principals 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, 2011**

The Town reports the following funds:

Governmental Funds

Major Governmental Funds:

- General Fund — This is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds:

- 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 interfund 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. Interfund transfers and balances between funds are not eliminated in the fund financial statements.

TOWN OF UNION CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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 nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the 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 nonoperating revenues and expenses.

I.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, 2011

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, 2011**

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
- Interfund Transfers

**TOWN OF UNION CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

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.

The budgetary comparison schedules are reported on a non-GAAP budgetary basis that report revenues on a cash basis and expenditures on a cash basis modified for encumbrances. For the year ending June 30, 2011, there were no outstanding encumbrances reported for the funds presented.

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, 2011, the Town's bank balances of \$247,234 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 judgements, 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, 2011**

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

Cash and Cash Equivalents - Governmental Funds

	BALANCE JUNE 30, 2010	INCREASE	DECREASE	BALANCE JUNE 30, 2011
<u>GENERAL FUNDS</u>				
<u>UNRESTRICTED:</u>				
General Fund	\$ 59,574	0	(26,868)	32,706
TOTAL	59,574	0	(26,868)	32,706
<u>FIRE FUNDS</u>				
<u>UNRESTRICTED:</u>				
Fire Fund	53,548	0	(15,619)	37,929
TOTAL	53,548	0	(15,619)	37,929
<u>OTHER FUNDS</u>				
<u>UNRESTRICTED:</u>				
Street & Alley Fund	205	199	0	404
Police Fund	1,760	0	(664)	1,096
4 TH Festival Fund	4,420	1,752	0	6,172
TOTAL	6,385	1,951	(664)	7,672
TOTAL UNRESTRICTED	119,507	1,951	(43,151)	78,307
<u>OTHER FUNDS</u>				
<u>RESTRICTED:</u>				
For Capital Projects	653	0	0	653
For Debt Service	2,876	0	(2,868)	8
TOTAL RESTRICTED	3,529	0	(2,868)	661
TOTAL CASH & EQUIVALENTS- GOVERNMENTAL FUNDS	\$ 123,036	1,951	(46,019)	78,968

**TOWN OF UNION CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

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

Cash and Cash Equivalents - Enterprise Fund

	BALANCE JUNE 30, 2010	INCREASE	DECREASE	BALANCE JUNE 30, 2011
<u>UNRESTRICTED:</u>				
Operating	\$ 92,348	26,683	0	119,031
TOTAL UNRESTRICTED	92,348	26,683	0	119,031
<u>RESTRICTED:</u>				
For Capital Projects	0	0	0	0
For Debt Service	27,678	24	0	27,702
Customer Deposits	21,475	58	0	21,533
TOTAL RESTRICTED	49,153	82	0	49,235
TOTAL CASH & EQUIVALENTS- ENTERPRISE FUND	\$ 141,501	26,765	0	168,266

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, 2011**

3.B. Capital Assets

Capital asset activity resulting from modified cash basis transactions for the fiscal year ended June 30, 2011 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	118,085	87,303	0	205,388	10-40
Leased Capital Assets	143,523	0	0	143,523	5-10
Machinery and Equipment	95,108	0	0	95,108	5-10
Total capital assets, being depreciated	703,654	87,303	0	790,957	
Less: Accumulated Depreciation	(70,533)	(51,110)	0	(121,643)	
Governmental activities capital assets, net	\$ 633,121	36,193	0	669,314	

As of June 30, 2011, 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 \$51,110 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	1,596,760	3,574	0	1,600,334
Total capital assets, being depreciated	1,596,760	3,574	0	1,600,334
Less: Accumulated Depreciation	(637,478)	(56,220)	0	(693,698)
Total capital assets, being depreciated, net	959,282	(52,646)	0	906,636
Business-type activities capital assets, net	\$ 1,025,182	(52,646)	0	972,536

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.

Capital Assets, being depreciated:

	06/30/2010	ADDITIONS	DISPOSALS	06/30/2011	Lives
Buildings	\$ 36,339	0	0	36,339	40
Leased Capital Assets	26,431	0	0	26,431	5-10
Equipment	151,462	3,574	0	155,036	5-10
Utility Property and Improvements	1,382,528	0	0	1,382,528	20-40
Totals	\$ 1,596,760	3,574	0	1,600,334	

**TOWN OF UNION CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

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. As of June 30, 2011, the long-term debt, arising from cash transactions, payable from governmental fund resources consisted of the following:

Capital Lease Obligations:

\$24,785 capital lease obligation with Bank of Union for 2008 Dodge Charger, payable in monthly installments of \$741, final payment due August 2011. (4.87%)	\$ 1,473
\$24,968 capital lease obligation with Bank of Union for 2009 Dodge Charger, payable in monthly installments of \$738, final payment due February 2012. (4.05%)	5,798
\$24,968 capital lease obligation with Bank of Union for 2009 Dodge Charger, payable in monthly installments of \$738, final payment due February 2012. (4.05%)	5,798
\$24,275 capital lease obligation with Bank of Union for 2007 Ford Truck and 2007 Crown Victoria, payable in monthly installments of \$718, final payment due March 2012. (4.0%)	6,965
Total Capital Lease Obligations	\$ <u>20,034</u>
Current portion	\$ 19,377
Non-current portion	657
Total Capital Lease Obligations	\$ <u>20,034</u>

Business-Type Activities — As of June 30, 2011, the long-term debt, arising from cash transactions, payable from proprietary fund resources consisted of the following:

\$14,431 capital debt obligation with Bank of Union for 2009 Dodge Truck, payable in monthly installments of \$427, final payment due March 2012. (4.0%)	\$3,774
\$9,200 capital debt obligation with Bank of Union for Tractor, payable in monthly installments of \$272, final payment due January 2013. (4.06%)	4,994
Total Capital Lease Obligations	\$ <u>8,768</u>
Current portion	\$ 6,891
Non-current portion	1,877
Total Capital Lease Obligations	\$ <u>8,768</u>

**TOWN OF UNION CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

3.C. Long-Term Debt (Continued)

Business-Type Activities (Continued)

Notes Payable:

Note Payable to Oklahoma Water Resources Board (OWRB), dated April 6, 1994, in the amount of \$300,000, payable in quarterly installments plus interest, (rate adjusted quarterly), final payment date of August 15, 2023 (1.55%)

		\$ 205,609
Total Notes Payable		\$ 205,609
Current portion	\$	9,635
Non-current portion		195,974
Total Notes Payable	\$	205,609

Utility Revenues Pledged

The Town has 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 is payable from water, sewer, and sanitation customer net revenues and are payable through August 2023. Annual principal and interest payments on the note are expected to require more than net revenues. The total principal and interest remaining to be paid on the note is \$238,691. Principal and interest paid for the current year was \$12,771.

Long-term liability activity for the year ended June 30, 2011, was as follow:

	Balance 6/30/10	Additions	Reductions	Balance 6/30/11	Amount Due Within One Year
Governmental Activities:					
Capital Lease Obligations	\$ 53,023	0	32,989	20,034	19,377
Total Governmental Activities	\$ 53,023	0	32,989	20,034	19,377
Business-Type Activities:					
Capital Lease Obligations	\$ 16,619	0	7,851	8,768	6,891
Notes Payable	215,100	0	9,491	205,609	9,635
Total Business-Type Activities	\$ 231,719	0	17,342	214,377	16,526

**TOWN OF UNION CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

3.C. Long-Term Debt (Continued)

The annual debt service requirements to maturity are as follows:

Governmental Activities:

Year Ending June 30,	Capital Lease Obligation:	
	Principal	Interest
2012	\$ 19,377	293
2013	657	0
2014	0	0
2015	0	0
2016-2020	0	0
2021-2025	0	0
Total	\$ 20,034	293

Business-Type Activities:

Year Ending June 30,	Capital Lease Obligation		Notes Payable	
	Principal	Interest	Principal	Interest
2012	\$ 6,891	210	9,635	3,136
2013	1,877	26	9,793	2,977
2014	0	0	9,942	2,829
2015	0	0	10,097	2,674
2016	0	0	10,251	2,520
2017-2021	0	0	53,724	10,130
2022-2026	0	0	57,153	6,701
2027-2030	0	0	45,014	2,115
Total	\$ 8,768	236	205,609	33,082

**TOWN OF UNION CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

3.D. Interfund Receivables, Payables, and Transfers

The Town had no interfund balances as of June 30, 2011. 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	\$ 4,878	95,074
Fire Fund	83,550	10,638
Capital Projects Funds	0	3,742
Sinking Fund	0	2,873
Enterprise Fund	23,899	0
Totals	\$ 112,327	112,327

Reconciliation to Fund financial Statements:

	Transfers In	Transfers Out	Net Transfers
Governmental Funds	\$ 88,428	(112,327)	(23,899)
Enterprise Funds	23,899	0	23,899
Total	\$ 112,327	(112,327)	0

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, 2011**

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

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 July 23, 2012, 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.

**UNAUDITED REQUIRED
SUPPLEMENTARY INFORMATION**

TOWN OF UNION CITY, OKLAHOMA
Unaudited Budgetary Comparison Schedule
Major Governmental Funds - Modified Cash Basis
For the Year Ending June 30, 2011

	General Fund				Fire Department Fund			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final			Original	Final		
Beginning Budgetary Fund Balance	\$ 39,971	39,971	53,593	13,622	53,549	53,549	53,548	(1)
Resources (Inflows):								
Taxes	196,200	196,200	172,097	(24,103)	0	0	0	0
Intergovernmental	0	0	0	0	0	0	0	0
Fines and Forfeitures	190,000	190,000	167,273	(22,727)	0	0	0	0
Licenses, Permits, & Inspection Fees	88,700	88,700	82,444	(6,256)	200	200	190	(10)
Investment Income	1,000	1,000	711	(289)	200	200	343	143
Grants, Donations, Fund Raisers	0	0	21,539	21,539	0	0	6,698	6,698
Charge for Services	4,000	4,000	0	(4,000)	1,500	1,500	593	(907)
Royalties	0	0	0	0	0	0	0	0
Miscellaneous	5,890	5,890	15,892	10,002	2,500	2,500	0	(2,500)
Transfers In	0	0	4,878	4,878	83,800	83,800	83,550	(250)
Total Resources (Inflows)	485,790	485,790	464,834	(20,956)	88,200	88,200	91,374	3,174
Amounts Available for Appropriations	525,761	525,761	518,427	(7,334)	141,749	141,749	144,922	3,173
Charges to Appropriations (Outflows):								
General Government	172,634	144,860	120,910	23,950	0	0	0	0
Public Safety:								
Police & Court	269,327	285,827	276,599	9,228	0	0	0	0
Fire	0	0	0	0	88,200	96,355	96,355	0
Other	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0
Transfers Out	83,800	95,074	95,074	0	10,639	10,639	10,638	1
Total Charges to Appropriations	525,761	525,761	492,583	33,178	98,839	106,994	106,993	1
Ending Budgetary Fund Balance	\$ 0	0	25,844	25,844	42,910	34,755	37,929	3,174

See Disclaimer in Independent Auditor's Report.

OTHER SUPPLEMENTARY INFORMATION

TOWN OF UNION CITY, OKLAHOMA
Combining Statement of Assets, Liabilities, and Fund Balances
Nonmajor Governmental Funds - Modified Cash Basis
June 30, 2011

	Special Revenue			Capital Projects			Debt Service		Total Nonmajor Governmental Funds
	Street & Alley Fund	Police Fund	4th Festival Fund	OWRB Reap Grant Funds	Home, Capital Improvement, & Reap-FAP Funds	CDBG Grant Funds	Sinking Fund		
Assets									
Cash and Cash Equivalents									
Unrestricted	\$ 404	1,096	6,172	0	0	0	0	0	7,672
Restricted	0	0	0	0	653	0	8	8	661
Total Assets	404	1,096	6,172	0	653	0	8	8	8,333
Liabilities									
Total Liabilities	0	0	0	0	0	0	0	0	0
Fund Balances Restricted for:									
Capital Projects	0	0	0	0	653	0	0	0	653
Debt Service	0	0	0	0	0	0	8	8	8
Committed									
Street and Alley	404	0	0	0	0	0	0	0	404
Culture and Recreation	0	0	6,172	0	0	0	0	0	6,172
Unassigned	0	1,096	0	0	0	0	0	0	1,096
Total Fund Balances	404	1,096	6,172	0	653	0	8	8	8,333
Total Liabilities and Fund Balances	\$ 404	1,096	6,172	0	653	0	8	8	8,333

TOWN OF UNION CITY, OKLAHOMA
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds - Modified Cash Basis
For the Year Ended June 30, 2011

	Special Revenue			Capital Projects			Debt Service		Total Nonmajor Governmental Funds
	Street & Alley Fund	Police Fund	4th Festival Fund	OWRB Reap Grant Funds	Home, Capital Improvement, & Reap-Fap Grant Funds	CDBG Grant Funds	Sinking Fund		
Revenues									
Intergovernmental	\$ 12,652	0	0	0	0	0	0	0	12,652
Charges for Services	0	10	1,008	0	0	0	0	0	1,018
Donations and Fundraisers	0	900	4,839	0	0	0	0	0	5,739
Grants	0	0	0	14,111	2,816	34,912	0	0	51,839
Investment Income	13	0	11	0	0	0	3	3	27
Miscellaneous	15	0	0	0	0	0	0	0	15
Total Revenues	12,680	910	5,858	14,111	2,816	34,912	3	3	71,290
Expenditures									
Current:									
Public Safety:									
Police	0	1,574	0	0	0	0	0	0	1,574
Fire	0	0	0	0	0	0	0	0	0
Streets	12,481	0	0	0	0	0	0	0	12,481
Community Service	0	0	4,111	0	0	0	0	0	4,111
Capital Outlay	0	0	0	13,185	0	34,912	0	0	48,097
Total Expenditures	12,481	1,574	4,111	13,185	0	34,912	0	0	66,263
Excess (Deficiency) of Revenues Over (Under) Expenditures	199	(664)	1,747	926	2,816	0	3	3	5,027
Other Financing Sources (Uses)									
Transfers In and (Out)	0	0	0	(926)	(2,816)	0	(2,872)	(2,872)	(6,614)
Total Other Financing Sources (Uses)	0	0	0	(926)	(2,816)	0	(2,872)	(2,872)	(6,614)
Net Change in Fund Balances	199	(664)	1,747	0	0	0	(2,869)	(2,869)	(1,587)
Fund Balances- Beginning	205	1,760	4,425	0	653	0	2,876	2,876	9,919
Fund Balances- Ending	\$ 404	1,096	6,172	0	653	0	7	7	8,332

TOWN OF UNION CITY, OKLAHOMA
Statement of Changes in Net Assets
Fiduciary Funds - Modified Cash Basis
Year Ended June 30, 2011

	Agency Fund Municipal Court
Additions	
Fines and Fees Collected	\$ 188,372
Interest	99
Miscellaneous	<u>92</u>
Total Additions	<u>188,563</u>
Deductions	
State of Oklahoma Fees	19,470
Fines to General Fund	168,202
Administration	<u>890</u>
Total Deductions	<u>188,563</u>
Change in Net Assets	<u><u>\$ 0</u></u>

TOWN OF UNION CITY, OKLAHOMA
Schedule of Federal and State Awards
and Donations Received
Modified Cash Basis
For the Year Ending June 30, 2011

<u>DESCRIPTION:</u>	<u>Current Year</u> <u>Revenues</u>
<u>GENERAL FUND:</u>	
OHSO	\$ 1,302
FEMA	19,176
REAP	1,061
TOTAL GENERAL FUNDS	21,539
<u>FIRE FUND:</u>	
OKLAHOMA DEPARTMENT OF AGRICULTURE	4,398
DONATIONS RECEIVED	2,300
TOTAL FIRE FUND	6,698
<u>OTHER GOVERNMENTAL FUNDS:</u>	
OWRB REAP GRANT	14,111
REAP-FAP GRANT	2,816
CDBG GRANT	34,912
POLICE FUND DONATIONS	900
4th FESTIVAL DONATIONS	4,839
TOTAL OTHER GOVERNMENTAL FUNDS	57,578
TOTALS FOR ALL GOVERNMENTAL FUNDS	\$ 85,815

INTERNAL CONTROL AND COMPLIANCE INFORMATION

JOE BOB SMITH
CERTIFIED PUBLIC ACCOUNTANT
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

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, 2011, which collectively comprise the Town's basic financial statements and have issued my report thereon dated July 23, 2012. 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) I was not able to express an opinion on the governmental activities financial statements due to scope limitations, and (c) The Management Discussion and Analysis is 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 2011-2.

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 2011-1 and 2011-3.

**JOE BOB SMITH
CERTIFIED PUBLIC ACCOUNTANT
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, 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
July 23, 2012

TOWN OF UNION CITY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2011

Deficiencies of Internal Control, Compliance, and Other Matters

2011-1. 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.

2011-2. 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, 2011

2011-3. 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.

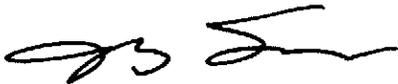
Context — Lack of internal control and reporting of the Town's general fixed assets.

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.



Joe Bob Smith
Certified Public Accountant

Broken Bow, Oklahoma
July 23, 2012