

TOWN OF MOUNDS, OKLAHOMA

ANNUAL FINANCIAL REPORT

DECEMBER 31, 2010

RALPH OSBORN
CERTIFIED PUBLIC ACCOUNTANT
500 SOUTH CHESTNUT
P. O. Box 1015
BRISTOW, OKLAHOMA 74010-1015
(918) 367-2208
FAX (918) 367-1034

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Members of the Town Council
Town of Mounds, Oklahoma

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Mounds, Oklahoma as of and for December 31, 2010, which collectively comprise the Town of Mounds, Oklahoma's basic financial statements. These financial statements are the responsibility of Town of Mounds, Oklahoma'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 significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of Town of Mounds, Oklahoma as of December 31, 2010, and the respective changes in financial position and cash flows, where applicable, thereof, for , in conformity with accounting principles generally accepted in the United States of America.

The Town of Mounds, Oklahoma has not presented Management's Discussion and Analysis or budgetary comparisons that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, I have also issued my report dated February 14, 2012, on my consideration of Town of Mounds, Oklahoma'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 should be considered in assessing the results of my audit.

My audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise Town of Mounds, Oklahoma's financial statements of the Town taken as a whole. The combining financial statements presented for purposes of additional analysis are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Ralph Osborn

Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
February 14, 2012

TOWN OF MOUNDS, OKLAHOMA
STATEMENT OF NET ASSETS
DECEMBER 31, 2010

| ASSETS | Primary Government | | |
|---|----------------------------|--------------------------------|---------------------|
| | Governmental Activities | Business Type Activities | Total |
| Current assets: | | | |
| Cash and cash equivalents | \$ 131,218 | \$ 75,900 | \$ 207,118 |
| Investments | 240,815 | 12,773 | 253,588 |
| Other receivable | 5,385 | - | 5,385 |
| Account receivable | 6,505 | 12,869 | 19,374 |
| Taxes receivable | 23,332 | - | 23,332 |
| Prepaid expenses | 12,631 | 1,810 | 14,441 |
| Insurance reserve | 1,286 | - | 1,286 |
| Due from other funds | <u>10,000</u> | <u>-</u> | <u>10,000</u> |
| Total current assets | <u>431,172</u> | <u>103,352</u> | <u>534,524</u> |
| Non-current assets: | | | |
| Insurance reserve | 11,853 | - | 11,853 |
| Capital assets | | | |
| Land | 32,000 | 20,200 | 52,200 |
| Other capital assets net of Accumulated depreciation | <u>1,040,775</u> | <u>673,495</u> | <u>1,714,270</u> |
| Total non-current assets | <u>1,084,628</u> | <u>693,695</u> | <u>1,778,323</u> |
| Total assets | <u>1,515,800</u> | <u>797,047</u> | <u>2,312,847</u> |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Accounts payable | 16,295 | 9,545 | 25,840 |
| Due to other funds | 10,000 | - | 10,000 |
| Utility deposits | - | 5,461 | 5,461 |
| Capital lease payable, current | <u>20,502</u> | <u>-</u> | <u>20,502</u> |
| Total current liabilities | <u>46,797</u> | <u>15,006</u> | <u>61,803</u> |
| Non-current liabilities: | | | |
| Capital lease non-current | <u>73,883</u> | <u>-</u> | <u>73,883</u> |
| Total non-current liabilities | <u>73,883</u> | <u>-</u> | <u>73,883</u> |
| Total liabilities | <u>120,680</u> | <u>15,006</u> | <u>135,686</u> |
| NET ASSETS | | | |
| Nonspendable | 1,023,087 | 693,368 | 1,716,455 |
| Assigned | 188,683 | 88,673 | 277,356 |
| Unassigned | <u>183,350</u> | <u>-</u> | <u>183,350</u> |
| Total net assets | <u>\$ 1,395,120</u> | <u>\$ 782,041</u> | <u>\$ 2,177,161</u> |

See accompanying notes to financial statements.

TOWN OF MOUNDS, OKLAHOMA
STATEMENT OF ACTIVITIES
DECEMBER 31, 2010

| | <u>Program Revenue</u> | | | | Net (Expenses) Revenue |
|---------------------------------|-------------------------------------|---|---|-------------------|------------------------------|
| | <u>Charges For Services</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> | | |
| <u>Expenses</u> | | | | | |
| Function/Programs | | | | | |
| Governmental activities | | | | | |
| General government | \$ 148,807 | \$ 388 | \$ 6,138 | \$ - | \$ (142,281) |
| Public safety | 201,391 | 93,744 | 4,398 | 42,000 | (61,249) |
| Street | 8,451 | - | 10,641 | 60,000 | 62,190 |
| Parks and recreation | 160 | - | - | - | (160) |
| Culture and Education | 8,580 | - | 6,145 | 2,000 | (435) |
| Cemetery | - | - | - | - | - |
| Total governmental activities | <u>367,389</u> | <u>94,132</u> | <u>27,322</u> | <u>104,000</u> | <u>(141,935)</u> |
| Business-type activities | | | | | |
| Utility services | 162,001 | 157,931 | - | - | (4,070) |
| Total business-type activities | <u>162,001</u> | <u>157,931</u> | <u>-</u> | <u>-</u> | <u>(4,070)</u> |
| Total primary government | <u>\$ 529,390</u> | <u>\$ 252,063</u> | <u>\$ 27,322</u> | <u>\$ 104,000</u> | <u>\$ (146,005)</u> |

| <u>Primary Government</u> | | |
|------------------------------------|-------------------------------------|--------------|
| <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Total</u> |

Changes in net assets:

| | | | |
|-----------------------|--------------|------------|--------------|
| Net (expense) revenue | \$ (141,935) | \$ (4,070) | \$ (146,005) |
|-----------------------|--------------|------------|--------------|

General revenues

| | | | |
|-------------------------------------|---------------------|-------------------|---------------------|
| Taxes | | | |
| Sales /use tax | 236,691 | - | 236,691 |
| Franchise | 31,463 | - | 31,463 |
| Cigarette tax | 3,033 | - | 3,033 |
| Other | 5,037 | - | 5,037 |
| Proceeds from judgement | 5,385 | - | 5,385 |
| Interest | 5,386 | 469 | 5,855 |
| Total general revenue and transfers | <u>286,995</u> | <u>469</u> | <u>287,464</u> |
| Change in net assets | 145,060 | (3,601) | 141,459 |
| Net assets - beginning | <u>1,250,060</u> | <u>785,642</u> | <u>2,035,702</u> |
| Net assets - ending | <u>\$ 1,395,120</u> | <u>\$ 782,041</u> | <u>\$ 2,177,161</u> |

See accompanying notes to financial statements.

TOWN OF MOUNDS, OKLAHOMA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2010

| | General Fund | Fire Department | Other Governmental Funds | Total Governmental Funds |
|--|-------------------|--------------------|--------------------------------|--------------------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 76,915 | \$ 37,660 | \$ 16,643 | \$ 131,218 |
| Investments | 106,435 | 71,808 | 62,572 | 240,815 |
| Taxes receivable | 23,332 | - | - | 23,332 |
| Other receivable | 5,385 | - | - | 5,385 |
| Accounts receivable | - | 6,505 | - | 6,505 |
| Due from other funds | 10,000 | - | - | 10,000 |
| Prepaid expense | 9,618 | 3,013 | - | 12,631 |
| TOTAL ASSETS | <u>\$ 231,685</u> | <u>\$ 118,986</u> | <u>\$ 79,215</u> | <u>\$ 429,886</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| LIABILITIES | | | | |
| Due to other funds | \$ - | \$ - | \$ 10,000 | \$ 10,000 |
| Accounts payable | 14,923 | 927 | 445 | 16,295 |
| TOTAL LIABILITIES | <u>14,923</u> | <u>927</u> | <u>10,445</u> | <u>26,295</u> |
| FUND BALANCES | | | | |
| Nonspendable | 33,412 | 8,591 | (10,445) | 31,558 |
| Assigned | - | 109,468 | 79,215 | 188,683 |
| Unassigned | 183,350 | - | - | 183,350 |
| TOTAL FUND BALANCES | <u>216,762</u> | <u>118,059</u> | <u>68,770</u> | <u>403,591</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 231,685</u> | <u>\$ 118,986</u> | <u>\$ 79,215</u> | <u>\$ 429,886</u> |

See accompanying notes to financial statements.

TOWN OF MOUNDS, OKLAHOMA
 RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS
 WITH THE STATEMENT OF NET ASSETS
 DECEMBER 31, 2010

Total fund balance \$ 403,591

Amounts reported in the statement of net assets
 are different because:

Capital assets used in governmental activities
 are not financial resources and therefore are
 not reported as assets in governmental funds.

| | | |
|--------------------------|------------------|-----------|
| Capital assets | 1,424,758 | |
| Accumulated depreciation | <u>(351,983)</u> | 1,072,775 |

| | | |
|---|--|--------|
| Insurance reserve is long-term and not reported in the funds | | 13,139 |
|---|--|--------|

| | | |
|--|--|-----------------|
| Long-term liabilities are not due and payable in the current period and are not reported in the funds. | | <u>(94,385)</u> |
|--|--|-----------------|

| | | |
|------------------|--|---------------------|
| Total net assets | | <u>\$ 1,395,120</u> |
|------------------|--|---------------------|

See accompanying notes to financial statements.

TOWN OF MOUNDS, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES
GOVERNMENTAL FUNDS
DECEMBER 31, 2010

| | General Fund | Fire Department | Other Governmental Funds | Total Governmental Funds |
|---|-------------------|--------------------|--------------------------------|--------------------------------|
| Revenue | | | | |
| Sales/use tax | \$ 236,691 | \$ - | \$ - | \$ 236,691 |
| Franchise tax | 31,463 | - | - | 31,463 |
| Gasoline and auto tax | 10,641 | - | - | 10,641 |
| Alcoholic beverage tax | 6,138 | - | - | 6,138 |
| Cigarette tax | 3,033 | - | - | 3,033 |
| Fire revenue | - | 32,332 | - | 32,332 |
| Cemetery | - | - | - | - |
| License and permits | 388 | - | - | 388 |
| Intergovernmental | 68,145 | 46,398 | - | 114,543 |
| Fines and forfeits | - | - | 61,412 | 61,412 |
| Donations | 50 | 50 | - | 100 |
| Other | 4,937 | - | - | 4,937 |
| Interest | <u>2,288</u> | <u>1,639</u> | <u>1,459</u> | <u>5,386</u> |
| Total revenue | <u>363,774</u> | <u>80,419</u> | <u>62,871</u> | <u>507,064</u> |
| Expenditures | | | | |
| Current | | | | |
| General government | 128,573 | - | - | 128,573 |
| Public safety | 142,225 | 75,725 | 14,492 | 232,442 |
| Culture and education | 38,630 | - | - | 38,630 |
| Parks and recreation | - | - | - | - |
| Street and alley | <u>78,733</u> | <u>-</u> | <u>-</u> | <u>78,733</u> |
| Total expenditures | <u>388,161</u> | <u>75,725</u> | <u>14,492</u> | <u>478,378</u> |
| Excess (deficiency) of revenue over expenditures | <u>(24,387)</u> | <u>4,694</u> | <u>48,379</u> | <u>28,686</u> |
| Other financing sources (uses) | | | | |
| Proceeds from judgement | 5,385 | - | - | 5,385 |
| Transfer in | 44,961 | - | - | 44,961 |
| Transfer out | <u>-</u> | <u>-</u> | <u>(44,961)</u> | <u>(44,961)</u> |
| Total other financing sources (uses) | <u>50,346</u> | <u>-</u> | <u>(44,961)</u> | <u>5,385</u> |
| Net change in fund balance | 25,959 | 4,694 | 3,418 | 34,071 |
| Fund balances, beginning | <u>190,803</u> | <u>113,365</u> | <u>65,352</u> | <u>369,520</u> |
| Fund balances, ending | <u>\$ 216,762</u> | <u>\$ 118,059</u> | <u>\$ 68,770</u> | <u>\$ 403,591</u> |

See accompanying notes to financial statements.

TOWN OF MOUNDS, OKLAHOMA
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 DECEMBER 31, 2010

Net changes in fund balances - total governmental funds \$ 34,071

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the combined statement of net assets and allocated over their estimated useful lives as annual depreciation in the statement of activities. This is the amount by which capital outlay exceeds depreciation outlay in the period.

| | | |
|----------------------|----------------|--------|
| Depreciation expense | (45,949) | |
| Capital outlay | <u>125,381</u> | 79,432 |

Insurance reserve is long-term and not reported in the funds -

The proceeds of debt issuance provides 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. This is the amount by which debt proceeds exceeded repayment.

| | | |
|---------------|---------------|---------------|
| Debt proceeds | - | |
| Repayment | <u>31,557</u> | <u>31,557</u> |

Change in net assets \$ 145,060

See accompanying notes to financial statements.

TOWN OF MOUNDS, OKLAHOMA
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND
DECEMBER 31, 2010

| | <u>Public Works</u> |
|---|---------------------|
| ASSETS | |
| Current assets: | |
| Cash and cash equivalents | \$ 75,900 |
| Investments | 12,773 |
| Accounts receivable | 12,869 |
| Prepaid expense | <u>1,810</u> |
| Total current assets | <u>103,352</u> |
| Non-current assets | |
| Capital assets: | |
| Land | 20,200 |
| Capital assets, net of accumulated depreciation | <u>673,495</u> |
| Total non-current assets | <u>693,695</u> |
| Total assets | <u>797,047</u> |
| LIABILITIES | |
| Current liabilities: | |
| Accounts payable | 9,545 |
| Utility deposits | <u>5,461</u> |
| Total current liabilities | <u>15,006</u> |
| NET ASSETS | |
| Nonspendable | 693,368 |
| Assigned | <u>88,673</u> |
| Net assets of business-type activities | <u>\$ 782,041</u> |

See accompanying notes to financial statements.

TOWN OF MOUNDS, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET ASSETS PROPRIETARY FUND
DECEMBER 31, 2010

| | <u>Public Works</u> |
|--|---------------------|
| <u>OPERATING REVENUES</u> | |
| Charges for services: | |
| Wastewater charges | \$ 76,332 |
| Sanitation charges | <u>81,599</u> |
| Total operating revenues | <u>157,931</u> |
| <u>OPERATING EXPENSES</u> | |
| Personal services | 33,013 |
| Employee health insurance | 5,340 |
| Contract billing | 12,486 |
| Telephone and utility | 3,812 |
| Sanitation contractor | 60,271 |
| Insurance | 2,006 |
| Repair and maintenance | 8,564 |
| Professional services | 2,150 |
| Other expenses | 2,041 |
| Depreciation | <u>32,318</u> |
| Total operating expenses | <u>162,001</u> |
| Operating income (loss) | <u>(4,070)</u> |
| <u>NON-OPERATING REVENUE (EXPENSES)</u> | |
| Investment income | <u>469</u> |
| Total non-operating revenue (expenses) | <u>469</u> |
| Change in net assets of business type activities | (3,601) |
| Total net assets, beginning | <u>785,642</u> |
| Total net assets, ending | <u>\$ 782,041</u> |

See accompanying notes to financial statements.

TOWN OF MOUNDS, OKLAHOMA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE
DECEMBER 31, 2010

| | <u>Public Works</u> |
|--|-------------------------|
| Cash flows from operating activities | |
| Cash received from customers | \$ 158,637 |
| Cash payments to employees | (33,013) |
| Cash payments to suppliers for goods and services | <u>(95,471)</u> |
| Net cash provided (used) by operating activities | <u>30,153</u> |
| Cash flows from capital and related financing activities | |
| Acquisition of fixed assets | <u>(28,143)</u> |
| Net cash used for capital and related financing activities | <u>(28,143)</u> |
| Cash flows from investing activities | |
| Transferred to investments | (278) |
| Interest revenue | <u>469</u> |
| Net cash provided by investing activities | <u>191</u> |
| Net increase in cash and cash equivalents | 2,201 |
| Cash and cash equivalents, beginning | <u>73,699</u> |
| Cash and cash equivalents, ending | <u><u>\$ 75,900</u></u> |
| | |
| Reconciliation of operating income (loss) to net cash provided by (used) by operating activities | |
| Operating income (loss) | \$ (4,070) |
| Adjustments to reconcile operating income to net cash used by operating activities: | |
| Depreciation | 32,318 |
| Changes in assets and liabilities: | |
| Decrease in accrued receivables | 551 |
| Increase in accounts payable | 1,199 |
| Increase in utility deposits | <u>155</u> |
| Net cash provided by operating activities | <u><u>\$ 30,153</u></u> |

See accompanying notes to financial statements.

TOWN OF MOUNDS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Mounds, Oklahoma, was incorporated under the provisions of the laws of the State of Oklahoma. The Town operates under a Board of Trustees form of government and provides the following services: general government, public safety, public works, parks and recreation. The basic financial statements include the departments, agencies, and other organizational units over which the Board of Trustees exercise oversight responsibility. In evaluating how to define the government for financial reporting purposes, management has considered all potential component units. The decision to include a component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 14 and No. 39. Based on the criteria Mounds Public Works Authority is the only component unit. The definition of the financial reporting entity is primarily based on the concept of financial accountability. The financial reporting entity consists of the primary government (the Town), and activities for which the primary government is financially accountable, and the activities of Mounds Public Works Authority. Financial accountability exists if a primary government appoints a voting majority of an organizations governing body, and is either able to impose its will on the organization or there is a potential for the organization to provide a specific financial benefit to, or impose specific financial burdens on, the primary government. Based upon the application of these criteria, there are no other entities to include in the Town's financial statements.

Mounds Public Works Authority was created under the provisions of Title 60, Sections 176 to 180, Oklahoma Statutes. The Authority is managed by a Board of Trustees made up of members of the Town Board of Trustees. The Authority operates sanitation and sewer services for the Town of Mounds.

The accounting policies of the Town conform to accounting principles generally accepted in the United States of America applicable to government units.

Government-Wide and Fund Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the Town as a whole excluding fiduciary activities such as employee pension plans. The primary government and component units are presented separately within the financial statements with the focus on the primary government. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and Town general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A functional program is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include (1) charges for services which report fees, fines and forfeitures, and other charges to users of the Town's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction,

TOWN OF MOUNDS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these programs uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund financial statements of the Town are provided for governmental and proprietary funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns for non-major funds.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the Town are prepared in accordance 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 (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 ABP opinions issued after November 30, 1989.

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). However, internal eliminations do not include utility services provided to Town departments. Reimbursements are reported as reductions to expenses. Proprietary and fiduciary fund financial statements and financial statements of Town component units also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Town considers revenues to be available if they are collected within 30 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include: sales and use taxes, property taxes, franchise taxes (fees), intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.

Operating income reported in proprietary fund financial statements include revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the cost of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

TOWN OF MOUNDS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as needed.

FUND TYPES AND MAJOR FUNDS

The Town reports the following major governmental funds:

General Fund

The general fund reports as the primary fund of the Town. This fund is used to account for all financial resources not reported in other funds.

Fire Department Fund

The Fire Department fund reports activity of the volunteer fire department.

Proprietary Funds

The Town reports the following major enterprise funds:

Mounds Public Works Authority

The Authority provides certain utility services for the Town.

Budgetary Accounting and Control

The Town adopts an annual budget for all funds established by the governing body as required by O.S. 11 Section 17.207 through 17.210. The state statutes also require that the budget be adopted by resolution or per the town charter at the legal level of classification (fund, department, & object category) and that the budget be filed with County Clerk and the State Auditor and Inspector. The Town may transfer budgeted amounts within and among departments. The budget is prepared on a cash basis.

The Town adopts an annual budget for all funds established by the governing body as required by O.S. 11 Section 17.207 through 17.210. The state statutes also require that the budget be adopted by resolution or per the town charter at the legal level of classification (fund, department, & object category) and that the budget be filed with County Clerk and the State Auditor and Inspector. The Town may transfer budgeted amounts within and among departments. The budget is prepared on a cash basis.

Investments

The Town follows Governmental Accounting Standards Board (GASB) Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which requires marketable securities to be carried at fair value. The Town considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The investments reported in the financial statements consist of Certificates of Deposits.

TOWN OF MOUNDS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriations, is employed in the governmental funds. Encumbrances outstanding at year end are reported as reservations of fund balances.

Inventories and Prepaids

Inventories in governmental funds consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost which is recorded as an expenditure at the time individual inventory items are used. Proprietary funds and similar component unit inventories are recorded at the lower of cost or market on a first-in, first-out basis. The Town has not maintained inventory records, however, the value of inventory on hand at December 31, 2010 is not believed to be material.

Prepaids record payments to vendors that benefit future reporting periods and are also reported on the consumption basis. Both inventories and prepaids are similarly reported in government-wide and fund financial statements.

Capital Assets, Depreciation, and Amortization

The Town's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. The Town maintains infrastructure assets records consistent with all other capital assets. Proprietary and component unit capital assets are also reported in their respective fund and combining component units financial statements. Donated assets are stated at fair value on the date donated. The Town generally capitalizes assets with cost of \$2,500 or more as purchase and construction outlay occur. The cost of normal maintenance and repairs that do not add to the assets value or materially extend useful lives are not capitalized. Capital assets, including those of component units, are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are moved from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follow:

| | |
|-------------------------------------|------|
| Buildings | 5-60 |
| Improvements, other than buildings | 2-50 |
| Mobile equipment | 3-40 |
| Furniture, machinery, and equipment | 3-30 |
| Utility system | 5-50 |

TOWN OF MOUNDS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

Compensated Absences

Full-time, permanent employees are granted personal leave in varying amounts to specified maximums depending on tenure with the Town. The estimated liabilities include required salary-related payments. Compensated absences are reported as accrued in the government-wide, proprietary, fiduciary, and component unit financial statements. Governmental funds report only matured absences payable to currently terminating employees and are included in wages and benefits payable.

Reserves and Designations

Reserves represent those portions of fund balance not available for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

Use of Estimates

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

NOTE B - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Custodial Credit Risk

Custodial credit risk is the risk that in the event of failure of counterparty, the Town will not be able to recover the value of its deposits or investments. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Investment securities are exposed to custodial credit risk if they are uninsured, are not registered in the name of the Town, and are held by counterparty or the counterparty's trust department but not in the name of the Town. The Town's policy requires that all deposits and investments in excess of amounts covered by federal deposit insurance be fully collateralized by the entity holding the deposits or investments. As of December 31, 2010, all of the Town's deposits and investments were either covered by federal deposit insurance or were fully collateralized.

Deposits

The Town had deposits at financial institutions with a carrying amount of approximately \$460,706 at December 31, 2010. The bank balance of the deposits at December 31, 2010 was approximately \$480,058.

Credit Risk

Fixed-income securities are subject to credit risk. However, the Town did not have fixed income securities at December 31, 2010.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Board of Trustees monitors the investment performance on an ongoing basis to limit the Town's interest rate risk. As of December 31, 2010, the Town's deposits consisted of demand deposits and certificates of deposit with a maturity of 12 months or less.

TOWN OF MOUNDS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE C - ACCOUNTS RECEIVABLE

The Authority has accounts receivable from its utility customers in the amount of \$12,869. The Authority believes it will ultimately collect all of the amount due.

The governmental funds have accrued taxes to be received in January.

NOTE D - INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables at December 31, 2010 are as follows:

| <u>Amount</u> | <u>Due To Other Funds</u> | <u>Due From Other Funds</u> |
|------------------|---------------------------|-----------------------------|
| \$ 10,000 | General Fund | Court |
| <u>\$ 10,000</u> | | |

NOTE E - INSURANCE RESERVE

The insurance reserve relates to risk management activities. Town of Mounds, Oklahoma's risk management activities consist of purchasing policies from commercial insurance carriers. As part of its risk management activity, the Town has purchased workers' compensation insurance from Oklahoma Municipal Assurance Group (the Group). The premium paid for the workers' compensation insurance includes an amount which is placed in a loss fund for the Town of Mounds, Oklahoma. The balance of the premium is used for administration of the insurance and obtaining insurance coverage. The loss fund is an actuarially determined estimate of the Town's expected workers' compensation claims during the policy period. At December 31, 2010, the balance in the fund was \$11,853.

If the actual losses are less than the amount of the loss fund, the difference may be refunded to the Town or placed in an escrow account for the Town of Mounds, Oklahoma. Refunds may begin as early as two years after the end of the plan year. The reinsurance purchased by the Group covers claims in excess of the loss fund. The Town of Mounds, Oklahoma is not obligated to pay any amount in excess of its annual premium. The amount in the escrow account at December 31, 2010 was \$0. This money may be refunded on written request.

Renewal premiums to be billed the Town of Mounds, Oklahoma are limited to a maximum reduction of 10% from the prior year's billed premium. Any portion of the billed premium in excess of the amount required to fully fund the Town's actuarial premium is held by the Group in the Rate Stabilization Reserve (RSR) for the Town. RSR balances will be applied to offset any future billed premium increases in excess of 10% over the prior year's billed premium. The Town of Mounds, Oklahoma is entitled to a refund of any RSR balance upon termination of their participation in the insurance. The Town of Mounds, Oklahoma had \$1,286 in the RSR as of December 31, 2010.

TOWN OF MOUNDS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE F - CAPITAL ASSETS

Changes in capital assets.

The following table provides a summary of changes in capital assets:

| | <u>CAPITAL ASSETS, DEPRECIATED</u> | | | | <u>Capital Assets Not Depreciated Land</u> |
|---------------------------------|------------------------------------|---|--|--------------------|--|
| | <u>Buildings</u> | <u>Infrastructure & Improvements Other Than Buildings</u> | <u>Furniture, Machinery, And Equipment</u> | <u>Totals</u> | |
| PRIMARY GOVERNMENT | | | | | |
| Governmental activities | | | | | |
| Balance, Dec 31, 2009 | \$ 632,374 | \$ 242,322 | \$ 392,681 | \$1,267,377 | \$ 32,000 |
| Increases | - | 68,447 | 56,934 | 125,381 | - |
| Decreases | - | - | - | - | - |
| Balance, Dec 31, 2010 | <u>632,374</u> | <u>310,769</u> | <u>449,615</u> | <u>1,392,758</u> | <u>32,000</u> |
| Accumulated Depreciation | | | | | |
| Balance, Dec 31, 2009 | 111,174 | 15,565 | 179,295 | 306,034 | |
| Increase | 11,070 | 5,896 | 28,983 | 45,949 | |
| Decreases | - | - | - | - | |
| Balance, Dec 31, 2010 | <u>122,244</u> | <u>21,461</u> | <u>208,278</u> | <u>351,983</u> | |
| Governmental activities | | | | | |
| Capital Assets, Net | <u>\$ 510,130</u> | <u>\$ 289,308</u> | <u>\$ 241,337</u> | <u>\$1,040,775</u> | <u>\$ 32,000</u> |
| Business-type activities | | | | | |
| Balance, Dec 31, 2009 | \$ - | \$1,093,710 | \$ 35,334 | \$1,129,044 | \$ 20,200 |
| Increases | - | 28,143 | - | 28,143 | - |
| Decreases | - | - | - | - | - |
| Balance, Dec 31, 2010 | <u>-</u> | <u>1,121,853</u> | <u>35,334</u> | <u>1,157,187</u> | <u>20,200</u> |
| Accumulated Depreciation | | | | | |
| Balance, Dec 31, 2009 | - | 440,458 | 10,917 | 451,375 | |
| Increase | - | 30,627 | 1,690 | 32,317 | |
| Decreases | - | - | - | - | |
| Balance, Dec 31, 2010 | <u>-</u> | <u>471,085</u> | <u>12,607</u> | <u>483,692</u> | |
| Business-type Activities | | | | | |
| Capital Assets, Net | <u>\$ -</u> | <u>\$ 650,768</u> | <u>\$ 22,727</u> | <u>\$ 673,495</u> | <u>\$ 20,200</u> |
| PRIMARY GOVERNMENT | | | | | |
| Capital Assets, Net | <u>\$ 510,130</u> | <u>\$ 940,076</u> | <u>\$ 264,064</u> | <u>\$1,714,270</u> | <u>\$ 52,200</u> |

DEPRECIATION EXPENSE

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

GOVERNMENT ACTIVITIES

BUSINESS-TYPE ACTIVITIES

| | | | |
|-----------------------|-----------|--------------|-----------|
| General government | \$ 11,787 | Public works | \$ 32,317 |
| Public Safety | 25,883 | | |
| Parks and Recreation | 160 | | |
| Street | 6,612 | | |
| Culture and Education | 1,507 | | |

TOWN OF MOUNDS, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2010

NOTE G - LEASE OBLIGATIONS

The Town has entered into a lease agreement as lessee for financing the acquisition of a building. The lease agreement qualifies as a capital lease for accounting purposes since title transfers at the end of the lease term and it has been recorded at the present value of the future minimum lease payments.

The schedule of the future minimum lease payments under the capital lease and the present value of the net minimum lease payments at December 31, is as follows:

| <u>Year ending December 31</u> | <u>Building</u> |
|--|------------------|
| 2011 | \$ 27,332 |
| 2012 | 27,332 |
| 2013 | 27,332 |
| 2014 | 27,332 |
| 2015 | <u>27,332</u> |
| Total minimum lease payments | 136,660 |
| Less: Amount representing interest | <u>42,275</u> |
| Present value of future minimum lease payments | <u>\$ 94,385</u> |

NOTE H - COMPENSATED ABSENCES

The amount that should be reported for accrued compensated absences is not known but is not believed to be material.

NOTE I - PENSION OBLIGATIONS

Oklahoma Firefighter's Pension and Retirement System

Town of Mounds participates in this statewide, cost-sharing, multiple-employer benefit plan on behalf of firefighters. The system is administered by an agency of the State of Oklahoma and funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary. The following is a summary of eligibility factors, contribution methods, and benefit provisions.

| | <u>Oklahoma Firefighter's Pension And Retirement System</u> |
|--|---|
| Eligibility to Participate | All full-time or voluntary Firefighters of a participating Municipality hired before age 45 |
| Authority establishing contribution obligations and benefit provisions | State Statute |
| Plan members' contribution rate | 8% of covered payroll |
| City's contribution rate | 13% of covered payroll/\$60 per volunteer |
| Period required to vest | 10 years |

TOWN OF MOUNDS, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2010

NOTE I - PENSION OBLIGATIONS, (Continued)

| | | |
|--|-----|---|
| Benefits and eligibility for distribution (full time) | | 20 years credited service, 2 ½% of final Average salary multiplied by the years of Credited service with a maximum of 30 yrs Considered; If vested at or after age 50 Or after 10 but before 20 years of Credited service with reduced benefits. |
| Benefits and eligibility for distribution (Volunteer) | | 20 years credited service equal to \$5.46 per month per year of service With a maximum of 30 Years considered |
| Deferred retirement option | | Yes, 20 years credited service with Continued service for 30 or more years |
| Provisions for: | | |
| Cost of living adjustments (normal retirement) | Yes | Yes, if vested by 5/83 |
| Death (duty, non-duty, post-retirement) | Yes | Yes |
| Disability | Yes | Yes |
| Cost of living allowances | Yes | Yes |

Contributions required by State Statute:

| <u>Fiscal Year End</u> | <u>Oklahoma Firefighter's Pension And Retirement System</u> | |
|----------------------------|---|-----------------------------------|
| | <u>Required Contribution</u> | <u>Percentage Contributed</u> |
| Dec 31, 2010 | \$ 1,140 | 100% |
| Dec 31, 2009 | 1,200 | 100% |
| Dec 31, 2008 | 1,380 | 100% |

Oklahoma Municipal Retirement Fund

The Town allows employees to participate in Oklahoma Municipal Retirement Fund, a defined contributions plan. The plan is funded by contributions from participants and employees. The following is a summary of eligibility factor, contribution methods, and benefit provision:

Oklahoma Municipal Retirement Fund

| | |
|-----------------------------|---|
| Eligibility | All regular, full-time employees except police, firefighters and other employees who are covered under an approved system. |
| Employee contributions | 5% of pay. |
| Employer contribution | 5% of pay |
| Service Credited Service | The last period of continuous employment with the employer excluding any periods before the effective date of the plan specified in the adoption agreement. |
| Vesting | Credited service plus transferred service from other OMRF employees. |
| Benefit Eligibility | 5 or more years of vesting service. |
| Final Average Compensation | The average of the 5 highest consecutive annual salaries out of the last 10 years of service. |

TOWN OF MOUNDS, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2010

NOTE I - PENSION OBLIGATIONS, (Continued)

| | |
|---|--|
| Accrued Benefit | Plan AA 2.65% of final average compensation multiplied by the number of years of credited service. |
| Normal Retirement Age | Age 65 with 5 or more years of vesting service. |
| Normal Retirement Eligibility | Termination of employment on or after normal retirement age. |
| Benefit | The accrued benefit payable immediately. |
| Early Retirement Eligibility | Termination after age 55 with 5 or more years of vesting. |
| Benefit | The accrued benefit payable starting at normal retirement, or the accrued benefit reduced 5% per year for commencement prior to normal retirement age. |
| Disability Retirement Eligibility | Total and permanent disability after 5 or more years of service. |
| Benefit | The accrued benefit is payable upon disablement without reduction for early payment. |
| Termination Before Retirement Age | Return of employee contributions with interest. |
| Before Vesting | Return of employee contributions with interest. |
| After Vesting | The accrued benefit payable starting at age 65, or a reduced benefit payable at an early retirement age. |
| In-service Death Before vesting | Return of member contributions with interest. |
| After vesting (married participants only) | 50% of the accrued benefit is payable to the spouse until death or remarriage. |
| After Vesting (other participants) | 50% of the accrued benefit is payable for 60 months certain. |
| Payment Options | The normal form of payment of the accrued benefit is a monthly lifetime annuity with 5 years certain. |
| Normal form | The normal form of payment of the accrued benefit is a monthly lifetime annuity with 5 years certain. |
| Optional forms | Disability retirement benefits are paid only under the normal form. |
| | Other retirement benefits are available under actuarially Equivalent optional forms: - Joint and 50% survivor annuity - Joint and 66-2/3rds last survivor annuity - Joint and 100% survivor annuity |
| Cost of Living | Benefits in payment status are adjusted each July 1 st based on the percentage change in the CPI. The maximum increase is 3% per year. |

TOWN OF MOUNDS, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2010

NOTE I - PENSION OBLIGATIONS, (Continued)

Contributions required by State Statute:

| <u>Fiscal Year End</u> | <u>Oklahoma Municipal Retirement System</u> | |
|----------------------------|---|-----------------------------------|
| | <u>Required Contribution</u> | <u>Percentage Contributed</u> |
| Dec 31, 2010 | \$ 9,078 | 100% |
| Dec 31, 2009 | 8,744 | 100% |
| Dec 31, 2008 | 4,444 | 100% |

NOTE J - RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town carries commercial insurance for risk of loss, including workers' compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

TOWN OF MOUNDS, OKLAHOMA
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2010

| | <u>Cemetery</u> | <u>Court</u> | <u>Total Non-Major Fund</u> |
|---|------------------|------------------|-------------------------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 3,346 | \$ 13,297 | \$ 16,643 |
| Investments | <u>62,572</u> | <u>-</u> | <u>62,572</u> |
| TOTAL ASSETS | <u>\$ 65,918</u> | <u>\$ 13,297</u> | <u>\$ 79,215</u> |
| LIABILITIES | | | |
| Accounts payable | \$ - | \$ 445 | \$ 445 |
| Due to other funds | <u>-</u> | <u>10,000</u> | <u>10,000</u> |
| TOTAL LIABILITIES | <u>-</u> | <u>10,445</u> | <u>10,445</u> |
| FUND BALANCES | | | |
| Nonspendable | - | (10,445) | (10,445) |
| Assigned | <u>65,918</u> | <u>13,297</u> | <u>79,215</u> |
| TOTAL FUND BALANCE | <u>65,918</u> | <u>2,852</u> | <u>68,770</u> |
| TOTAL LIABILITIES AND FUND BALANCE | <u>\$ 65,918</u> | <u>\$ 13,297</u> | <u>\$ 79,215</u> |

See accompanying notes to financial statements.

TOWN OF MOUNDS, OKLAHOMA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
 NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2010

| | <u>Cemetery</u> | <u>Court</u> | <u>Total Non-Major Funds</u> |
|---|------------------|-----------------|--------------------------------------|
| REVENUES | | | |
| Cemetery sales | \$ - | \$ - | \$ - |
| Fines and forfeits | - | 61,412 | 61,412 |
| Interest | <u>1,405</u> | <u>54</u> | <u>1,459</u> |
| TOTAL REVENUES | <u>1,405</u> | <u>61,466</u> | <u>62,871</u> |
| EXPENDITURES | | | |
| Current | | | |
| Public safety | <u>-</u> | <u>14,492</u> | <u>14,492</u> |
| TOTAL EXPENDITURES | <u>-</u> | <u>14,492</u> | <u>14,492</u> |
| Excess of revenues over (under) expenditures | <u>1,405</u> | <u>46,974</u> | <u>48,379</u> |
| Other financing sources (uses) | | | |
| Transfer out | <u>-</u> | <u>(44,961)</u> | <u>(44,961)</u> |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>-</u> | <u>(44,961)</u> | <u>(44,961)</u> |
| Net change in fund balance | 1,405 | 2,013 | 3,418 |
| Fund balances, beginning | <u>64,513</u> | <u>839</u> | <u>65,352</u> |
| Fund balances, ending | <u>\$ 65,918</u> | <u>\$ 2,852</u> | <u>\$ 68,770</u> |

See accompanying notes to financial statements.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and Members of the Town Council
Town of Mounds
Mounds, Oklahoma

I have audited the accompanying financial statements, of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Mounds, Oklahoma, as of and for December 31, 2010, which collectively comprise the Town of Mounds, Oklahoma's basic financial statements, and have issued my report thereon dated February 14, 2012 which did not include Management's Discussion and Analysis or budgetary comparison schedules. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Town of Mounds, Oklahoma'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 Town of Mounds, Oklahoma's internal control over financial reporting. Accordingly, I do not express an opinion of the effectiveness of Town of Mounds, Oklahoma's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a 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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Mounds, Oklahoma'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*.

This report is intended solely for the information and use of management, Board of Trustees, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
February 14, 2012