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State Auditor & Inspector

TOWN OF MORRISON

Morrison, Oklahoma

FINANCIAL STATEMENTS

For the Year Ended June 30, 2011

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TOWN OF MORRISON MORRISON, OKLAHOMA

CONTENTS

		<u>Page</u>
	INDEPENDENT AUDITOR'S REPORT	1-2
<u>Statement</u>		
	BASIC FINANCIAL STATEMENTS:	
	Government-wide Financial Statements:	
1	Statement of Net Assets	3
2	Statement of Activities	4
	Fund Financial Statements:	
3	Balance Sheet – Governmental Funds	5
4	Statement of Revenues, Expenditures, and Changes In Fund Balance – Governmental Funds	6-7
5	Statement of Net Assets – Proprietary Fund	8
6	Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Fund	9
7	Statement of Cash Flows – Proprietary Fund	10
	Notes to Basic Financial Statements	11-33
<u>Exhibit</u>		
	REQUIRED SUPPLEMENTARY INFORMATION:	
1	Budgetary Comparison Schedule – General Fund	34-35
	Notes to Budgetary Comparison Schedule	36
	OTHER SUPPLEMENTARY INFORMATION:	
	Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	37-38
2	Combining Balance Sheet – Nonmajor Governmental Funds	39
3	Combining Statement of Revenue, Expenditures, and Changes In Fund Balance – Nonmajor Governmental Funds	40
4	Budgetary Comparison Schedule – Budgeted Nonmajor Governmental Funds	41-42
5	Schedule of Grant Funds	43
6	Schedule of Findings and Responses	44

To the Town Council
Town of Morrison, Oklahoma

Independent Auditor's Report

I have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Morrison, 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 of Morrison, Oklahoma's, management. My responsibility is to express an opinion 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.

Management has not included the Morrison Educational Facilities Authority in the Town of Morrison, Oklahoma's, financial statements. Accounting principles generally accepted in the United States of America require the Morrison Educational Facilities Authority to be presented as a major enterprise fund and financial information about the Morrison Educational Facilities Authority to be part of the business-type activities, thus increasing that activity's assets, liabilities, revenues, and expenses, and changing its net assets. The amount by which this departure would affect the assets, liabilities, net assets, revenues, and expenses of the business-type activities and the omitted major fund is not reasonably determinable.

As discussed in Note 1.D., management has not recorded fixed assets at historical cost in the proprietary fund and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those fixed assets be capitalized and depreciated, which would increase the assets, net assets, and expenses of the business-type activities. The amount by which this departure would affect the assets, net assets, and expenses of the business-type activities is not reasonably determinable.

In my opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the business-type activities of the Town of Morrison, Oklahoma, as of June 30, 2011, or the changes in financial position and, where applicable, cash flows thereof for the year then ended.

In addition, in my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Morrison, Oklahoma, as of June 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated October 13, 2011, on my consideration of the Town of Morrison, 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, on pages 33 and 34, 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 Morrison, Oklahoma, has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Morrison, Oklahoma's financial statements as a whole. The individual nonmajor fund financial statements, on pages 38 and 39, the individual nonmajor fund budgetary comparison schedules, on pages 40 and 41, and the schedule of grant funds and the schedule of findings and responses, on pages 42 and 43, are presented for purposes of additional analysis and are not a required part of the financial statements. The individual nonmajor fund financial statements, the individual nonmajor fund budgetary comparison schedules, the schedule of grant funds, and the schedule of findings and responses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Bruce Luttrell, CPA, PC

October 13, 2011

**TOWN OF MORRISON
STATEMENT OF NET ASSETS
JUNE 30, 2011**

Statement 1

	Government Activities	Business-Type Activities	Totals
Assets			
Current assets			
Cash and cash equivalents	\$ 3,865.18	\$ 86,496.71	\$ 90,361.89
Restricted cash and cash equivalents	53,974.87	29,336.67	83,311.54
Restricted investments		21,000.00	21,000.00
Accounts receivable	30,862.29	27,207.42	58,069.71
Total current assets	<u>88,702.34</u>	<u>164,040.80</u>	<u>252,743.14</u>
Noncurrent assets			
Capital assets:			
Equipment	170,094.00	20,190.00	190,284.00
Land and improvements	15,722.36	93,185.00	108,907.36
Infrastructure	224,637.99	1,600,953.75	1,825,591.74
Less accumulated depreciation	<u>(86,783.76)</u>	<u>(577,812.69)</u>	<u>(664,596.45)</u>
Total noncurrent assets	<u>323,670.59</u>	<u>1,136,516.06</u>	<u>1,460,186.65</u>
Total assets	<u>412,372.93</u>	<u>1,300,556.86</u>	<u>1,712,929.79</u>
Liabilities			
Current liabilities			
Accounts payable	2,750.81	546.35	3,297.16
Accrued interest payable		23.47	23.47
Accrued compensated absences	1,590.40	763.88	2,354.28
Notes payable - current portion		4,911.78	4,911.78
Total current liabilities	<u>4,341.21</u>	<u>6,245.48</u>	<u>10,586.69</u>
Noncurrent liabilities			
Accrued compensated absences	318.08	-	318.08
Refundable deposits		37,994.38	37,994.38
Notes payable		57,130.03	57,130.03
Less: current portion		<u>(4,911.78)</u>	<u>(4,911.78)</u>
Total noncurrent liabilities	<u>318.08</u>	<u>90,212.63</u>	<u>90,530.71</u>
Total liabilities	<u>4,659.29</u>	<u>96,458.11</u>	<u>101,117.40</u>
Net assets (Note 1.D.)			
Invested in capital assets, net of related debt	323,670.59	1,079,386.03	1,403,056.62
Restricted	33,417.39	12,342.29	45,759.68
Committed	22,061.00		22,061.00
Assigned	4,752.59		4,752.59
Unassigned	<u>23,812.07</u>	<u>112,370.43</u>	<u>136,182.50</u>
Total net assets	<u>\$ 407,713.64</u>	<u>\$ 1,204,098.75</u>	<u>\$ 1,611,812.39</u>

The accompanying notes to the basic financial statements are an integral part of this statement.

TOWN OF MORRISON
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2011

Statement 2

Functions/programs	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contracts	Primary Government			
				Capital Grants and Contracts	Governmental Activities	Business-type Activities	Totals
Governmental activities							
General Government	\$ 53,843.99	\$ -	\$ -	\$ (53,843.99)	\$ -	\$ -	\$ (53,843.99)
Public Safety	25,293.90	20,225.82	4,897.72	(170.36)	-	-	(170.36)
Streets	16,388.50	-	-	29,575.86	-	-	29,575.86
Culture and recreation	59,108.04	3,808.22	-	(55,299.82)	-	-	(55,299.82)
Total government activities	154,634.43	24,034.04	4,897.72	(79,738.31)	-	-	(79,738.31)
Business-type activities							
Water	165,139.59	174,040.78	-	-	241,601.19	-	241,601.19
Wastewater	16,166.00	37,150.04	-	-	20,984.04	-	20,984.04
Sanitation	43,360.74	67,542.80	-	-	24,182.06	-	24,182.06
Administrative and general	123,705.66	-	-	-	(123,705.66)	-	(123,705.66)
Total business-type activities	348,371.99	278,733.62	-	-	163,061.63	-	163,061.63
Totals	\$ 503,006.42	\$ 302,767.66	\$ 4,897.72	(79,738.31)	163,061.63	83,323.32	83,323.32
General revenues							
Sales tax				113,733.97	-	-	113,733.97
Use tax				8,501.14	-	-	8,501.14
Cigarette tax				1,693.51	-	-	1,693.51
Intergovernmental revenue not restricted to specific programs				7,043.28	-	-	7,043.28
Intergovernmental revenue restricted for streets & alleys				5,760.79	-	-	5,760.79
Franchise fees				18,162.56	-	-	18,162.56
Miscellaneous				10,559.89	12,746.40	-	23,306.29
Interest expense				-	(3,502.55)	-	(3,502.55)
Investment earnings				408.97	696.52	-	1,105.49
Transfers: In				20,000.00	76,992.66	-	96,992.66
Transfers: Out				(76,992.66)	(20,000.00)	-	(96,992.66)
Total general revenues and transfers				108,871.45	66,933.03	-	175,804.48
Change in net assets				29,133.14	229,994.66	-	259,127.80
Net assets, beginning of year				378,580.50	974,104.09	-	1,352,684.59
Net assets, end of year				\$ 407,713.64	\$ 1,204,098.75	\$ 1,611,812.39	\$ 1,611,812.39

The accompanying notes to the basic financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

**TOWN OF MORRISON
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2011**

Statement 5

	Public Works Authority <u>Enterprise Fund</u>
Assets	
Current assets	
Cash and cash equivalents	\$ 86,496.71
Restricted investments	21,000.00
Restricted cash and cash equivalents	29,336.67
Accounts receivable	27,207.42
Total current assets	<u>164,040.80</u>
Noncurrent assets	
Capital assets:	
Equipment	20,190.00
Land and improvements	93,185.00
Infrastructure	1,600,953.75
Less accumulated depreciation	(577,812.69)
Total noncurrent assets	<u>1,136,516.06</u>
Total assets	<u>1,300,556.86</u>
Liabilities	
Current liabilities	
Accounts payable	546.35
Accrued interest payable	23.47
Accrued compensated absences	763.88
Notes payable - current portion	4,911.78
Total current liabilities	<u>6,245.48</u>
Noncurrent liabilities	
Refundable deposits	37,994.38
Accrued compensated absences	-
Notes payable	57,130.03
Less: current portion	(4,911.78)
Total noncurrent liabilities	<u>90,212.63</u>
Total liabilities	<u>96,458.11</u>
Net assets	
Invested in capital assets, net of related debt	1,079,386.03
Restricted for debt service	12,342.29
Unassigned	112,370.43
Total net assets	<u>\$ 1,204,098.75</u>

The accompanying notes to the basic financial statements are an integral part of this statement.

**TOWN OF MORRISON
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2011**

Statement 6

	<u>Public Works Authority Enterprise Fund</u>
Operating revenue	
Charges for services:	
Water	\$ 174,040.78
Sewer	37,150.04
Sanitation	67,542.80
Total operating revenue	<u>278,733.62</u>
Operating expenses:	
Water and wastewater	144,250.59
Sanitation	43,360.74
Administration and general	122,515.66
Depreciation	38,245.00
Total operating expenses	<u>348,371.99</u>
Net operating income (loss)	<u>(69,638.37)</u>
Nonoperating revenue (expense)	
Investment income	696.52
Interest expense	(3,502.55)
Grant income	232,700.00
Other income	12,746.40
Total nonoperating revenue (expense)	<u>242,640.37</u>
Net income (loss) before transfers	173,002.00
Operating transfers: In	76,992.66
Operating transfers: Out	<u>(20,000.00)</u>
Net income	229,994.66
Net assets beginning of year	<u>974,104.09</u>
Net asset end of year	<u>\$ 1,204,098.75</u>

The accompanying notes to the basic financial statements are an integral part of this statement.

NOTES TO BASIC FINANCIAL STATEMENTS

TOWN OF MORRISON
Morrison, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town complies with generally accepted accounting principles (GAAP.) GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary fund, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the Town the option of electing to apply FASB pronouncements issued after November 30, 1989. The Town has elected not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

1.A. FINANCIAL REPORTING ENTITY

In evaluating how to define the reporting entity, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board (GASB), GASB Statement No. 14, *The Financial Reporting Entity*. The basic (but not the only) criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility included, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the Town and/or its citizens, or whether the activity is conducted within the geographic boundaries of the Town and is generally available to its patrons. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financial relationships, regardless of whether the Town is able to exercise oversight responsibilities.

Based upon the application of these criteria, the Town's financial reporting entity is composed of the following:

Primary Government:	Town of Morrison
Blended Component Unit:	Morrison Public Works Authority
Omitted Component Unit:	Morrison Educational Facilities Authority

BLENDDED COMPONENT UNIT

A blended component unit is a separate legal entity that meets the component unit criteria. In addition, the blended component unit's governing body is the same or substantially the same as the Town Council, or the component unit provides services entirely to the Town. The component unit's funds are blended into those of the Town by appropriate fund type to constitute the primary government presentation. The blended component unit is presented below:

TOWN OF MORRSION
Morrison, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2011

1.A. FINANCIAL REPORTING ENTITY (continued)

<u>Component Unit</u>	<u>Brief Description / Inclusion Criteria</u>	<u>Fund Included In</u>
Public Works Authority (PPWA)	Created September 15, 1969, to finance, develop, and operate the water, sewer and solid waste activities of the Town. The current Town Council serves as entire governing body (trustees). The Town of Morrison is the beneficiary of the trust.	PWA Enterprise Fund

OMITTED COMPONENT UNIT

Based upon the application of these criteria, the Morrison Educational Facilities Authority is considered a component unit of the Town of Morrison. However, management has not included the Morrison Educational Facilities Authority in the Town of Morrison, Oklahoma's, financial statements. Accounting principals generally accepted in the United States of America require the Morrison Educational Facilities Authority to be presented as a major enterprise fund and financial information about the Morrison Educational Facilities Authority to be part of the business-type activities, thus increasing that activity's assets, liabilities, revenues, and expenses, and changing its net assets. The amount by which this departure would affect the assets, liabilities, net assets, revenues, and expenses of the business-type activities and the omitted major fund is not reasonably determinable.

DISCRETELY PRESENTED COMPONENT UNIT

Discretely presented component units are separate legal entities that meet the component unit criteria but do not meet the criteria for blending. The Town of Morrison does not have any discretely presented component units.

The Morrison Public Works Authority does not issue separately audited component unit financial statements. The Morrison Educational Facilities Authority does issue separately audited component unit financial statements.

1.B. BASIS OF PRESENTATION

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

FUND FINANCIAL STATEMENTS

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary,

TOWN OF MORRISON
Morrison, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2011

1.B. BASIS OF PRESENTATION (continued)

and fiduciary. The Town presently has no fiduciary funds. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds

Governmental funds are those through which most governmental functions are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance.

General Fund

The General Fund is the primary operating fund of the Town and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of the specific revenue sources that are either legally restricted to expenditures for specified purposes or designated to finance particular functions or activities of the Town. The reporting entity includes the following special revenue funds, which are reported as major funds:

<u>Fund</u>	<u>Brief Description</u>
First Responders Fund	Accounts for the proceeds of the monthly fees charged for emergency fire and medical services.
Fire Association Fund	Accounts for the proceeds of the fees charged by the volunteer fire department.

The reporting entity includes the following special revenue fund, which is reported as a nonmajor fund:

Street & Alley Fund	Accounts for gasoline excise and commercial vehicle taxes legally restricted for street and alley improvements.
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TOWN OF MORRISON
Morrison, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2011

1.B. BASIS OF PRESENTATION (continued)

Capital Project Funds

Capital project funds are used to account for resources restricted for the acquisition or construction of specific capital projects or items. The reporting entity includes the following capital project funds that are reported as nonmajor funds:

Grant Fund	Accounts for contributions and specific revenues and transfers from other Town funds and expenditures for various capital projects.
Park Fund	Accounts for contributions and specific revenues and transfers from other Town funds and expenditures for various park projects.

Proprietary Funds

Enterprise Fund

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges, and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the following enterprise fund that is reported as a major fund:

<u>Fund</u>	<u>Brief Description</u>
Public Works Authority	Accounts for the activities of the public trust in providing water, sewer, and solid waste services to the public.

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

MEASUREMENT FOCUS

In the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

TOWN OF MORRISON
Morrison, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2011

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (continued)

b. The proprietary fund utilizes an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent, financial, or nonfinancial) associated with their activities are reported. Proprietary fund equity is classified as net assets.

BASIS OF ACCOUNTING

In the government-wide Statement of Net Assets and Statement of Activities and the fund financial statements, governmental, business-like, and component unit activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

1.D. ASSETS, LIABILITIES, AND EQUITY

CASH AND CASH EQUIVALENTS

For the purpose of financial reporting, “cash and cash equivalents” include all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less.

INVESTMENTS

Investments classified in the financial statements, consist entirely of certificates of deposit whose original maturity term exceeds three months. Investments are carried at cost, which approximates fair value.

RECEIVABLES

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Uncollectible accounts receivable, based upon historical trends, are very minimal and thus immaterial to the financial statements. Thus, no allowance for uncollectible accounts receivable has been recorded. Major receivable balances for the governmental activities include sales tax, franchise taxes, alcoholic beverage tax, and motor vehicle taxes. Business-type activities report utilities and interest earnings as their major receivables.

TOWN OF MORRISON
Morrison, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2011

1.D. ASSETS, LIABILITIES, AND EQUITY (continued)

In the fund financial statements, material receivables in governmental funds include revenue accruals such as sales tax, franchise tax, and grants and other similar intergovernmental revenues since they are usually both measurable and available. Nonexchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable and interest earnings compose the majority of proprietary fund receivables. Uncollectible accounts receivable, based upon historical trends, are very minimal and thus immaterial to the financial statements. Thus, no allowance for uncollectible accounts receivable has been recorded.

INTERFUND RECEIVABLES AND PAYABLES

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Short-term interfund loans are reported as "interfund receivables and payables." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note 3.H. for details of interfund transactions, including receivables and payables at year-end.

INVENTORIES

The cost of consumable materials and supplies on hand are immaterial to the financial statements, and the Town has therefore chosen to report these items as expenditures at the time of purchase.

CAPITAL ASSETS

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

Government-Wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable. Prior to July 1, 2003, governmental funds' infrastructure assets were not capitalized. And, under GASB No. 34, small towns are not required to retroactively report infrastructure assets, and the Town of Morrison has elected not to retroactively report. Infrastructure assets in governmental funds acquired since July 1, 2003, are recorded at cost.

Detail fixed asset records at historical cost have not been maintained of such assets which are still in service for the proprietary fund (Morrison Public Works Authority). The accrual basis of accounting requires that these assets be capitalized, and the related depreciation be recorded, which would increase the assets and expenses of the activities.

TOWN OF MORRISON
Morrison, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2011

1.D. ASSETS, LIABILITIES, AND EQUITY (continued)

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. A capitalization threshold of \$ 500 is used to report capital assets. The range of estimated useful lives by type of asset is as follows:

	<u>Years</u>
Machinery, furniture, and equipment	5-10
Vehicles	5
Utility property and improvements	20-40
Infrastructure	40

Fund Financial Statements

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

RESTRICTED ASSETS

Restricted assets include cash and investments that are legally restricted as to their use. The primary restricted assets of the proprietary fund are related to the promissory note trustee accounts and the utility meter deposits. The primary restricted assets of the governmental funds are the motor vehicle tax and gasoline excise tax, related to the Street and Alley Fund, and the bank account related to the First Responders Fund.

LONG-TERM DEBT

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements. The long-term debt consists primarily of notes payable and accrued compensated absences.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principle and interest reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the government-wide statements.

COMPENSATED ABSENCES

Full time employees of the Town, and the Authority, are eligible for vacation leave after 12 months continuous service as follows: 1 year service - 6 days, 2-9 years service - 12 days, and over 9 years service - 18 days. Vacation leave is vested and paid upon separation. Full time employees of the

TOWN OF MORRISON
Morrison, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2011

1.D. ASSETS, LIABILITIES, AND EQUITY (continued)

Town, and the Authority, are eligible for sick leave after 12 months continuous service as follows: ½ day per month, up to a maximum of 30 days. Sick leave is not vested, thus lost upon separation.

The liability for these compensated absences is recorded as long-term debt in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred.

EQUITY CLASSIFICATION

As of June 30, 2011, the Town adopted Governmental Accounting Standards Board (GASB) Stmt. No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds, as follows:

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Town applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Balance

Fund Balance is divided into five classifications based primarily on the extent to which the Town is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable – The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.

Restricted – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation (Town ordinances).

Enabling legislation authorizes the Town to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the Town can be compelled by an external party – such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

TOWN OF MORRISON
Morrison, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2011

1.D. ASSETS, LIABILITIES, AND EQUITY (continued)

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of the Town Council. Those committed amounts cannot be used for any other purpose unless the Town Council removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by the Town Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints are not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the Town for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Town Council or a Town official delegated that authority by Town Charter or ordinance.

Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The Town applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Fund balances at June 30, 2011, for the governmental funds are as follows:

	<u>Special Revenue Funds</u>				<u>Total</u>
	<u>General Fund</u>	<u>First Responders Fund</u>	<u>Fire Association Fund</u>	<u>Street & Alley Fund</u>	
Fund balances:					
Restricted for:					
Highways				4,470.42	4,470.42
Fire services			28,946.97		28,946.97
Total Restricted			28,946.97	4,470.42	33,417.39
Committed to:					
Emergency fire & medical services		22,061.00			22,061.00
Assigned to:					
Wastewater projects	4,752.59				4,752.59
Unassigned	347,482.66				347,482.66
Total Fund Balances	<u>352,235.25</u>	<u>22,061.00</u>	<u>28,946.97</u>	<u>4,470.42</u>	<u>407,713.64</u>

TOWN OF MORRISON
Morrison, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2011

1.E. REVENUES, EXPENDITURES, AND EXPENSES

SALES TAX

The Town presently levies a four cent sales tax on taxable sales within the Town. (The rate was three cents prior to January 1, 2008.) The Town had previously pledged two thirds of three cents of the sales tax towards retiring the Oklahoma Water Resources Board debt. 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 Tax Commission receives the sales tax approximately one month after collection by vendors. The sales tax collected by the State in June and received by the Town in July has been accrued and is included under the caption "Receivable from other governments."

USE TAX

The Town levies a four cent use tax on personal property purchased outside the city limits but stored, used, or consumed within the Town. (The rate was three cents prior to January 1, 2008.) The use tax is collected by the Oklahoma Tax Commission and remitted to the Town in the month following receipt by the Tax Commission, which is one month after the tax is received from the vendors. The use tax is allocated entirely to the General Fund. Use tax collected by the State in June and received by the Town in July has been accrued and is included under the caption "Receivable from other governments."

PROGRAM REVENUES

In the Statement of Activities, revenues that are derived directly from each activity or from parties outside the Town's taxpayers are reported as program revenues. The Town has the following program revenues in each activity:

Public Safety	Fire protection, First Responder fees, operating grants include a State Department of Agriculture grant
Culture and Recreation	Rental income, recreation fees, pool revenue, specific donations, and capital grants

All other governmental revenues are reported as general. All taxes are classified as general revenue even if restricted for a specific purpose, except for the commercial vehicle tax and the gasoline excise tax, both of which are restricted for street and alley purposes.

OPERATING REVENUE AND EXPENSES

Operating revenues and expenses for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

1.F. INTERNAL AND INTERFUND BALANCES AND ACTIVITIES

In the process of aggregating the financial information for the government-wide Statement of Net Assets and Statement of Activities, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

TOWN OF MORRISON
Morrison, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2011

FUND FINANCIAL STATEMENTS

Interfund activity, if any, within and among the governmental and proprietary fund categories is reported as follows in the fund financial statements:

1. Interfund loans – Amounts provided with a requirement for repayment are reported as interfund receivables and payables.
2. Interfund services – Sales or purchases of goods and services between funds are reported as revenues and expenditures/expenses.
3. Interfund reimbursements – Repayments from funds responsible for certain expenditures/expenses to the funds that initially paid for them are not reported as reimbursements but as adjustments to expenditure/expenses in the respective funds.
4. Interfund transfers – Flow of assets from one fund to another where repayment is not expected are reported as transfers in and out.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

1. Internal balances – Amounts reported in the fund financial statements as interfund receivables and payables are eliminated in the governmental and business-type activities columns of the Statement of Net Assets, except for the net residual amounts due between governmental and business-type activities, which are reported as Internal Balances.
2. Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers – Internal Activities. The effects of interfund services between funds, if any, are not eliminated in the Statement of Activities.
3. Primary government and component unit activity and balances – Resource flows between the primary government (the Town and Public Works Authority) and the discretely-presented component unit (if any) are reported as if they were external transactions and are classified separately from internal balances and activities within the primary government.

1.G. USE OF ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

By its nature as a local government unit, the Town and its component units are subject to various federal, state, and local laws and contractual regulations. An analysis of the Town's compliance with significant laws and regulations and demonstration of its stewardship over Town resources follows.

TOWN OF MORRISON
Morrison, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2011

2.A. UNINSURED AND UNCOLLATERALIZED DEPOSITS

In accordance with State law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain State or political subdivision debt obligations, surety bonds, or certain letters of credit. As reflected in Note 3.A., all the Town's deposits were fully insured or collateralized at June 30, 2011.

NOTE 3. DETAIL NOTES – TRANSACTION CLASSES/ACCOUNTS

3.A. DEPOSITS AND INVESTMENTS

DEPOSITS

All the deposits of the Town are insured by the Federal Deposit Insurance Corporation (FDIC).

At June 30, 2011, the Town had deposits with a carrying amount of \$ 57,840.05 and a bank balance of \$ 57,840.05. All of the Town's deposits were covered by federal depository insurance.

At June 30, 2011, the Morrison Public Works Authority had deposits with a carrying amount of \$ 136,833.38 and a bank balance of \$ 136,833.38. All of the Morrison Public Works Authority's deposits were covered by federal depository insurance.

INVESTMENTS

Investments of the Town (excluding Public Trusts) are limited by State law to the following:

- a. Direct obligations of the U.S. Government, its agencies, and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper, and repurchase agreements with certain limitations.
- d. County, municipal, or school district tax-supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality, or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the Securities and Exchange Commission and in which investments consist of the investments mentioned in the previous paragraphs a,b,c, and d.

Public trusts created under O.S. Title 60 are not subject to the above noted investment limitations and are primarily governed by any restrictions in their trust or bond indentures. For the year ended June 30, 2011, the Town and the Public Works Authority complied, in all material respects, with these investment restrictions.

TOWN OF MORRISON
Morrison, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2011

3.A. DEPOSITS AND INVESTMENTS (continued)

At June 30, 2011, the Morrison Public Works Authority's investment consisted solely of a certificate of deposit whose original maturity term exceeded three months. At June 30, 2011, the carrying value and fair value of the certificate of deposit was \$ 21,000.00. For purposes of the Statement of Net Assets and the Statement of Cash Flows, the certificate of deposit is classified as an investment.

Interest Rate Risk: The Town does not have a formal investment policy.

Credit Risk: The Town has no policy regarding credit risk.

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

3.B. RESTRICTED ASSETS

The amounts reported as restricted assets are composed of amounts held by the Public Works Authority for utility deposits (refunded upon termination of service or applied to final bill) of \$ 37,994.38; amounts held in the Rural Development reserve account of \$ 12,342.29; amounts held by the Town in the Street & Alley Fund of \$ 4,287.14; and amounts held in the First Responder Fund of \$ 20,740.76.

Under the terms of the Rural Development loans, the Authority maintains a reserve account for the purposes of repairing or replacing any damage caused by any unforeseen catastrophe, making extensions or improvements to the system, or when required, for making debt service. With the consent of Rural Development, the Authority expended funds from this account during previous years. The balance in this reserve account at June 30, 2011 and 2010, was \$ 12,342.29 and \$ 11,492.64, respectively. The Authority is depositing \$ 150.70 monthly back into the reserve until a balance of \$ 18,084.00 is established.

3.C. RESTRICTED REVENUES

The Town has various restrictions placed over certain revenue sources from state or local requirements. The primary restricted revenue sources include:

Revenue Source	Legal Restrictions of Use
Sales Tax	Retire OWRB debt
Gasoline Excise & Commercial Vehicle Tax	Street & Alley purposes
Water, Sewer, and Trash revenue	Debt service and utility operations
Grant proceeds	Grant expenditures

Beginning with the effective date of the water purchase contract with the Lone Chimney Water Association, Lone Chimney shall have a first lien upon that part of the Authority's water revenue necessary to pay Lone Chimney under that contract.

3.D. ACCOUNTS RECEIVABLE

Accounts receivable of the business-type activities consist of utilities receivable. Accounts receivable of the

TOWN OF MORRISON
Morrison, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2011

3.D. ACCOUNTS RECEIVABLE (continued)

governmental activities consist of sales tax (29.4 %), franchise tax (52.4 %), alcoholic beverage tax (1.8 %), motor vehicle tax (1.3 %), gasoline excise tax (0.5 %), and other (14.6 %). Receivables detail at June 30, 2011, is as follows:

	Governmental Activities	Business-type Activities	Total
Accounts receivable	\$ 30,862.29	27,207.42	58,069.71

3.E. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Balance at July 1, 2010	Additions	Deductions	Balance at June 30, 2011
<i>Governmental activities:</i>				
Other capital assets:				
Machinery, furniture and equipment	170,094.00			170,094.00
Land and buildings	15,722.36			15,722.36
Infrastructure	<u>178,673.63</u>	45,964.36		<u>224,637.99</u>
Total other capital assets at historical cost	<u>364,489.99</u>	<u>45,964.36</u>		<u>410,454.35</u>
Less accumulated depreciation for:				
Machinery, furniture and equipment	64,613.42	12,075.00		76,688.42
Land and buildings	3,170.89	629.00		3,799.89
Infrastructure	<u>4,229.45</u>	<u>2,066.00</u>		<u>6,295.45</u>
Total accumulated depreciation	<u>72,013.76</u>	<u>14,770.00</u>		<u>86,783.76</u>
Other capital assets, net	<u>292,476.23</u>	<u>31,194.36</u>		<u>323,670.59</u>
Government activities capital assets, net	<u>292,476.23</u>	<u>31,194.36</u>		<u>323,670.59</u>
 <i>Business-type activities:</i>				
Capital assets not being depreciated:				
Land	<u>88,435.00</u>			<u>88,435.00</u>
Total capital assets not being depreciated	<u>88,435.00</u>			<u>88,435.00</u>
Other capital assets:				
Machinery, furniture and equipment	7,390.00			7,390.00
Vehicles	12,800.00			12,800.00
Utility property	<u>1,373,003.75</u>	232,700.00		<u>1,605,703.75</u>
Total other capital assets at historical cost	<u>1,393,193.75</u>	<u>232,700.00</u>		<u>1,625,893.75</u>
Less accumulated depreciation for:				
Machinery, furniture and equipment	6,390.00	250.00		6,640.00
Vehicles	9,144.00	750.00		9,894.00
Utility property	<u>524,033.69</u>	<u>37,245.00</u>		<u>561,278.69</u>
Total accumulated depreciation	<u>539,567.69</u>	<u>38,245.00</u>		<u>577,812.69</u>
Other capital assets, net	<u>853,626.06</u>	<u>194,455.00</u>		<u>1,048,081.06</u>
Business-type activities capital assets, net	<u>942,061.06</u>	<u>194,455.00</u>		<u>1,136,516.06</u>

TOWN OF MORRISON
Morrison, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2011

3.E. CAPITAL ASSETS (continued)

Depreciation expense was charged to functions as follows in the Statement of Activities:

Primary Government:	
Governmental Activities:	
Public Safety	\$ 7,245.00
Streets	1,353.00
Culture and Recreation	<u>6,172.00</u>
Total depreciation expense for governmental activities	<u>\$ 14,770.00</u>
Business-Type Activities:	
Water	\$ 20,889.00
Wastewater	16,166.00
Administrative and General	<u>1,190.00</u>
Total depreciation expense for business-type activities	<u>\$ 38,245.00</u>

3.F. ACCOUNTS PAYABLE

Payables in the General Fund and nonmajor governmental funds are composed entirely of payables to vendors. Payables of Utilities Enterprise Fund are also composed entirely of payables to vendors.

3.G. LONG-TERM DEBT

The reporting entity's long-term debt arising from cash transactions is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities.

GOVERNMENTAL ACTIVITIES

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

Accrued Compensated Absences:

• Current Portion	\$ 1,590.40
• Noncurrent portion	<u>318.08</u>
Total Governmental activity debt	<u>\$ 1,908.48</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:

• Loan # 91-04; dated March 27, 1981, in the original amount of \$ 85,900. This loan is to be repaid over 40 years, at 5 % interest, with monthly principal and interest payments of \$ 422.00	\$ 35,447.41
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TOWN OF MORRISON
Morrison, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2011

3.G. LONG-TERM DEBT (continued)

<ul style="list-style-type: none"> • Loan # 91-07; dated March 27, 1981, in the original amount of \$ 53,200. This loan is to be repaid over 40 years, at 5% interest, with monthly principal and interest payments of \$ 262.00. 	21,682.62
<ul style="list-style-type: none"> • Oklahoma Water Resource Board loan, dated July 27, 1989, in the original amount of \$ 320,000. This loan was due in increasing, variable, semi-annual amounts, through August, 2011. The loan carried a variable interest rate equal to the variable rate on the 1986A Series of the Oklahoma Water Resources Board State Loan Program Variable Rate Revenue Bonds. The loan was paid off during the current year. 	-
Total Notes Payable	\$ 57,130.03

As collateral for those loans, Rural Development holds a mortgage on the leasehold estate existing by virtue of the lease from the Town of Morrison to the Authority of all right, title and interest in and to the waterworks and distribution system, sewer system, and all physical facilities, accessories, and equipment pertaining thereto, now owned or to be acquired or to be constructed or improved, as well as all right, title and interest in, to, and under all grants, permits, privileges, licenses, ordinances, franchises, rights of way, and easements now held, leased, enjoyed and exercised, or which shall hereafter be owned, held, leased, acquired, enjoyed or exercised.

Rural Development subordinated its mortgage to the Oklahoma Water Resources Board loan, effective July 13, 1989, to a parity position in proportion to the amount of loaned funds advanced by Rural Development to the funds advanced by the Oklahoma Water Resources Board. The amount of parity was 47% Rural Development and 53% Oklahoma Water Resources Board.

Refundable Deposits:

- Refundable deposits reported as a liability within the Statement of Net Assets are composed of the following:

Utility Deposits – Refundable	\$ 37,994.38
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Accrued Compensated Absences:

<ul style="list-style-type: none"> • Current portion • Noncurrent portion 	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;"></td> <td style="text-align: right;">\$ 763.88</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">-</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">\$ 763.88</td> </tr> </table>		\$ 763.88		-		\$ 763.88
	\$ 763.88						
	-						
	\$ 763.88						

CHANGES IN LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended June 30, 2011.

TOWN OF MORRISON
Morrison, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2011

3.G. LONG-TERM DEBT (continued)

Type of Debt	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Amount Due Within One Year
Governmental Activities:					
Accrued compensated absences	1,590.40	318.08		1,908.48	1,590.40
Total Governmental Activities	1,590.40	318.08		1,908.48	1,590.40
Business-Type Activities:					
Notes payable	98,889.05		41,759.02	57,130.03	4,911.78
Accrued compensated absences	1,130.63		366.75	763.88	763.88
Refundable deposits	38,771.54	5,133.84	5,911.00	37,994.38	37,994.38
Total Business-Type Activities	138,791.22	5,133.84	48,036.77	95,888.29	43,670.04

DEBT SERVICE REQUIREMENTS TO MATURITY

The annual debt service requirements to maturity, including principal and interest, for long-term debt, except for refundable deposits, as of June 30, 2011, are as follows:

Year Ended June 30,	RD Note # 91-04		RD Note # 91-07	
	Principal	Interest	Principal	Interest
2012	3,046	2,018	1,866	1,278
2013	3,217	1,847	1,974	1,170
2014	3,398	1,666	2,087	1,056
2015	3,589	1,475	2,208	936
2016	3,791	1,273	2,336	808
2017-2021	18,406	2,921	11,211	1,857
Total	35,447	11,200	21,682	7,105

3.H. INTERFUND TRANSFERS AND BALANCES

INTERFUND TRANSFERS

TOWN OF MORRISON
Morrison, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2011

3.H. INTERFUND TRANSFERS AND BALANCES (continued)

Transfers between funds of the primary government for the year ended June 30, 2011, were as follows:

	Transfers In	Transfers Out
MAJOR FUNDS		
GENERAL FUND		
Public Works Authority	15,000.00	76,992.66
Street & Alley Fund	5,000.00	
Total General Fund	20,000.00	76,992.66
ENTERPRISE FUND		
Public Works Authority		
General Fund	76,992.66	15,000.00
Street & Alley Fund		5,000.00
	76,992.66	20,000.00
GRAND TOTALS	96,992.66	96,992.66

The transfers reflected in the above schedule are used to move restricted resources collected by the General Fund to the funds authorized to spend the resources.

NOTE 4: OTHER NOTES

4.A. EMPLOYEE PENSION AND OTHER BENEFIT PLANS

FIREFIGHTER'S PENSION AND RETIREMENT SYSTEMS

The Town of Morrison, as the employer, participates in the statewide cost-sharing multi-employer defined benefit plan on behalf of the volunteer firefighters. The system is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary.

Eligibility Factors, Contribution Methods, and Benefit Provisions

	Firefighter's Pension and Retirement System
Obtaining separately issued financial Statements	Firefighters Pension and Retirement 4545 N. Lincoln Blvd., Suite 265 Oklahoma City, Oklahoma 73105-3414
Eligibility to participate	All full-time or voluntary firefighters of a Participating municipality and hired before age 45.
Authority establishing contribution obligations and benefits	State Statute

TOWN OF MORRISON
Morrison, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2011

4.A. EMPLOYEE PENSION AND OTHER BENEFIT PLANS (continued)

	Firefighter's Pension and Retirement System
Employee's contribution rate	N/A
City's contribution rate	\$ 60 per volunteer
State obligation	State appropriation to fund the unfunded actuarial accrued liability
Period required to vest	10 years
Eligibility and benefits for distribution (full-time)	20 years credited service, 2.5 % of final average salary multiplied by the years of credited service with a maximum of 30 years considered; if vested, at or after age 50, or after 10 but before 20 years of credited service, with reduced benefits.
Eligibility and benefits for distribution (volunteer)	20 years credited service equal to \$ 6.69 per month per year of service, with a maximum of 30 years considered. If vested, same as full-time.
Deferred retirement option	Yes, 20 years credited with continued service for a maximum of 30 or more years.
Provision for:	
Cost of living adjustments (normal retirement)	Yes, if vested by 5/05
Death (duty, nonduty, post retirement)	Yes
Disability (duty, nonduty)	Yes
Cost of living allowances	Yes

Trend information showing the progress of the Systems in accumulating sufficient assets to pay benefits when due is presented in their respective separate annual financial reports.

Related-Party Investments

As of June 30, 2011, the System held no related-party investments of the Town or of its component units.

4.B. 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; and natural disasters.

TOWN OF MORRISON
Morrison, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2011

4.B. RISK MANAGEMENT (continued)

The Town manages these various risks of loss as follows:

<u>Type of Loss</u>	<u>Method Managed</u>	<u>Risk of Loss Retained</u>
a. Torts, errors, and omissions	Purchased insurance with Oklahoma Municipal Assurance Group	(1)
b. Physical property loss and natural disasters	Purchased commercial insurance, with a deductible of \$ 1,000	Deductible amount
c. Workers compensation	Workers comp is insured through State Insurance Fund with no deductible.	None

Management believes such coverage is sufficient to preclude any significant uninsured losses to the Town. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

Risk Entity Pools

The Town participates in the Oklahoma Municipal Assurance Group Liability Protection Plan (risk entity pool.)

(1) Liability Protection Plan

The basic insurance agreements cover claims against municipalities for all government functions, utilities, and services covered in the Plan. These include bodily injury, property damage, wrongful acts, personal injury, and related torts under the State tort claims law and federal civil rights laws.

All public officials, employees, services, and municipal functions are covered unless they are specifically listed as exclusions in the Plan.

The title to all assets acquired by the Plan are vested in the Group. In the event of termination of the Group, such property shall belong to the then members of the Group in equal shares. Each participating Town pays all costs, premiums, or other fees attributable to its respective participation in the Plan, and is responsible for its obligation under any contract entered into with the Plan.

Reserves for claim losses include provisions for reported claims on a case basis and an estimate of claims incurred but not reported limited by aggregate and individual loss levels as specified by the Plan's reinsurance contracts. These credits, if any, represent contingent liabilities of the Plan if the reinsurer was unable to meet its obligations under the reinsurance agreement.

The Plan's insurance agreements are reinsured for excess losses based upon the contract year. The significant components of each reinsurance contract can be obtained from the Plan's annual financial report.

4.C. COMMITMENTS AND CONTINGENCIES

COMMITMENTS

TOWN OF MORRISON
Morrison, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2011

4.C. COMMITMENTS AND CONTINGENCIES (continued)

COMMUNITY DEVELOPMENT BLOCK GRANT

The Town was approved for a Community Development Block Grant (CDBG) through the Oklahoma Department of Commerce / Division of Community Affairs and Development, funded by the U.S. Department of Housing and Urban Development, for \$ 123,700.00 to help fund the replacement of the Town's water lines. The funding period ran from April 10, 2009, through April 10, 2011. The total project is expected to cost \$ 1,387,200, funded by this grant, a REAP grant of \$ 123,700 (discussed below) and a loan from Rural Development of \$ 1,139,800 (discussed below.) During the previous year, \$ 14,700 was drawn, and expended, under the grant. During the current year, the final \$ 109,000 was drawn, and expended, under the grant. See the Schedule of Grant Funds for further details.

RURAL ECONOMIC ACTION PLAN GRANT (REAP)

The Town was approved for a \$ 123,700 Rural Economic Action Plan (REAP) grant through the State of Oklahoma, administered through the Northern Oklahoma Development Authority (NODA) to help fund the replacement of the Town's water lines. The funding period ran from November 15, 2008, through November 14, 2009. No funds were received during the previous year under the grant. During the current year, the entire \$ 123,700 was drawn, and expended, under the grant. See the Schedule of Grant Funds for further details.

RURAL ECONOMIC ACTION PLAN GRANT (REAP)

The Town was approved for a \$ 30,000 Rural Economic Action Plan (REAP) grant through the State of Oklahoma, administered through the Northern Oklahoma Development Authority (NODA) to resurface town streets. The funding period ran from June 30, 2010, through May 31, 2011. During the current year, the entire \$ 30,000 was drawn, and expended, under the grant. See the Schedule of Grant Funds for further details.

RURAL ECONOMIC ACTION PLAN GRANT (REAP)

The Town has been approved for a \$ 30,560 Rural Economic Action Plan (REAP) grant through the State of Oklahoma, administered through the Northern Oklahoma Development Authority (NODA) to resurface town streets. The funding period runs from February 1, 2011, through January 31, 2012. During the current year, \$ 15,964.36 was drawn, and expended, under the grant. See the Schedule of Grant Funds for further details.

RURAL DEVELOPMENT LOAN

The Town has applied for a loan from the United States Department of Agriculture – Rural Development, for \$ 1,139,800, to complete the replacement of the Town's water lines. Rural Development has issued a letter of conditions as of August 16, 2011, and extended the time to meet those conditions to December 8, 2011.

FIRST RESPONDERS PROGRAM

The Town approved the establishment of emergency fire and medical services, including First Responders and Emergency Medical Technicians, effective in March, 1996. The service is to be funded through a monthly fee charged to each living unit serviced by a water meter. The \$ 2 fee began in May 1996, and was increased to \$ 3 on June 11, 2001. The revenue and expenses associated with this program have been recorded in the financial statements as a Special Revenue Fund titled First Responders.

TOWN OF MORRISON
Morrison, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2011

4.C. COMMITMENTS AND CONTINGENCIES (continued)

WATER PURCHASE AGREEMENTS - INDIVIDUALS

The Town has two long-term lease agreements for the purchase of water from individuals. Effective May 22, 1969, the Town leased water rights from one individual for 2 cents per 1,000 gallons, based upon a minimum usage of \$100 per month. If the minimum was not met, the price was to be adjusted to result in a lease payment of at least \$ 100 per month. This lease runs for a period of 99 years. Effective January 9, 1968, the Town leased water rights from another individual for 2 cents per 1,000 gallons. This lease runs for a period of 99 years. The Town purchased its water from Lone Chimney Water Association during the years ended June 30, 2011 and 2010. Thus, no payments were made under these two leases for the years ended June 30, 2011 and 2010.

WATER PURCHASE AGREEMENTS - OTHER

Effective April 1, 1991, the Authority signed a water purchase contract with the Lone Chimney Water Association to purchase 2.3 million gallons of water per month (currently) beginning not later than sixty days after completion of the water transmission lines by Lone Chimney to the Authority's facilities. The contract runs through December 2031, with optional renewal periods five years each. The current purchase price is \$ 2.50 per thousand for the first 2.3 million gallons, and \$ 2.60/per thousand thereafter. Lone Chimney shall have a first lien upon that part of the Authority's water revenue necessary to pay Lone Chimney under this contract. Beginning in July 1994, the Authority began purchasing water from Lone Chimney.

WATER PLANT

During a prior year, with the connection of the Town's water-lines to the Lone Chimney water lines, the Town stopped treating raw water at the water plant. The water purchased from Lone Chimney is already treated. Thus, the plant was idle at June 30, 2011 and 2010.

CONTINGENCIES

Grant Program Involvement

In the normal course of operations, the Town participates in various federal or state grant/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

Litigation

The Town is a party to various legal proceedings that normally occur in the course of governmental operations. The financial statements do not include accruals or provisions for loss contingencies that may result from these proceedings. State statutes provide for the levy of an ad valorem tax over a 3-year period by a Town "Sinking Fund" for the payment of any court assessed judgment rendered against the Town. While the outcome of the above noted proceedings cannot be predicted, due to the insurance coverage maintained by the Town and the State statute relating to judgments, the Town feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the Town.

TOWN OF MORRISON
Morrison, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2011

4.D. SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 13, 2011, which is the date the financial statements were available to be issued.

**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 Town Council
Town of Morrison, Oklahoma

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Morrison, Oklahoma, as of and for the year ended June 30, 2011, which collectively comprise the Town of Morrison, Oklahoma's, basic financial statements and have issued my report thereon dated October 13, 2011. My report included an explanatory paragraph that stated management had not presented the Management's Discussion and Analysis to supplement the financial statements. My report on the business-type activities was qualified due to the omission of fixed assets and related depreciation. 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 the Town of Morrison'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 of Morrison's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Town of Morrison'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 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. I consider the deficiencies described in the accompanying schedule of findings and responses (# 2011-1 and # 2011-2) to be material weaknesses.

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 deficiency described in the accompany schedule of findings and responses (# 2011-3) to be a significant deficiency.

TOWN OF MORRISON
 BUDGETARY COMPARISON SCHEDULE
 BUDGETED NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2011

Exhibit 4

	STREET AND ALLEY			FIRST RESPONDERS FUND			
	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive(Negative)
Beginning Budgetary Fund Balance	\$ 4,935.00	\$ 4,935.00	\$ 5,561.53	\$ 24,276.00	\$ 24,276.00	\$ 24,140.16	\$ (135.84)
Resources (Inflows):							
Grants	-	41,937.11	45,964.36	5,000.00	5,000.00	4,897.72	(102.28)
Taxes	5,600.00	5,600.00	5,760.79	19,000.00	19,000.00	17,165.82	(1,834.18)
Charges for services				15.00	15.00	16.86	1.86
Investment income				8,800.00	8,800.00	1,134.34	(7,665.66)
Miscellaneous	3,000.00	3,183.60	3,183.60				
Transfers from other funds	6,000.00	6,000.00	5,000.00				
Amounts available for appropriation	13,535.00	61,655.71	65,470.28	57,091.00	57,091.00	47,354.90	(9,736.10)
Charges to Appropriations (Outflows):							
Personal services							
Maintenance and operations	13,500.00	15,500.00	15,035.50	31,500.00	31,500.00	25,293.90	6,206.10
Other services and charges							
Capital outlays							
Funds transfer							
Total Charges to Appropriations	13,500.00	61,620.71	60,999.86	31,500.00	31,500.00	25,293.90	6,206.10
Ending Budgetary Fund Balance	35.00	35.00	4,470.42	25,591.00	25,591.00	22,061.00	(3,530.00)

(Continued)

TOWN OF MORRISON
 BUDGETARY COMPARISON SCHEDULE
 BUDGETED NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2011

Exhibit 4

FIRE ASSOCIATION FUND			
	Budgeted Amounts	Actual Amounts	Variance with Final Budget Positive(Negative)
	Original	Final	
Beginning Budgetary Fund Balance	\$ 25,697.00	\$ 25,698.15	\$ 1.15
Resources (Inflows):			
Grants			-
Taxes			-
Charges for services	3,920.00	3,060.00	(860.00)
Investment income	187.00	188.82	1.82
Miscellaneous			-
Transfers from other funds			-
Amounts available for appropriation	<u>29,804.00</u>	<u>28,946.97</u>	<u>(857.03)</u>
Charges to Appropriations (Outflows):			
Personal services			-
Maintenance and operations			-
Other services and charges			-
Capital outlays			-
Funds transfer			-
Total Charges to Appropriations			-
Ending Budgetary Fund Balance	<u>29,804.00</u>	<u>28,946.97</u>	<u>(857.03)</u>

**TOWN OF MORRISON
SCHEDULE OF GRANT FUNDS
FOR THE YEAR ENDED JUNE 30, 2011**

Exhibit 5

Federal/State Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Cash Accrued or Deferred Revenue at July 1, 2010	Contract Receipts Revenue Recognized	Contract Disbursements Expenditures	Interest Earned Federal Funds	Match Receipts or Revenue Recognized	Match Disbursements Expenditures	Cash Accrued or Deferred Revenue at June 30, 2011
<u>U.S.Department of Housing and Urban Development</u>										
Passed through the Oklahoma Department of commerce										
CDBG-08	14.228	13537	123,700.00	-	109,000.00	109,000.00	-	123,700.00	123,700.00	-
<u>Rural Economic Action Plan Grant</u>										
Passed through the Northern Oklahoma Development Authority:										
# 09 REAP Fund N009-1			123,700.00	-	123,700.00	123,700.00				-
2010 REAP Fund NB10-1			30,000.00	-	30,000.00	30,000.00				-
2011 REAP Fund NB11-2			30,560.00	-	15,964.36	15,964.36				-
Total REAP			184,260.00	-	169,664.36	169,664.36	-	-	-	-