

**TOWN OF PORUM, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
JUNE 30, 2012**

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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Members of the Board of Trustees  
Town of Porum, 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 Porum, Oklahoma as of and for the year ended June 30, 2012, which collectively comprise the Town of Porum, Oklahoma's basic financial statements. These financial statements are the responsibility of Town of Porum, 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 opinion.

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 Porum, Oklahoma as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Town of Porum, Oklahoma has not presented Management's Discussion and Analysis or budgetary comparison 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 5, 2013, on my consideration of Town of Porum, 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 an opinion on the basic financial statements that collectively comprise Town of Porum, 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  
Certified Public Accountant  
Bristow, Oklahoma  
February 5, 2013

TOWN OF PORUM, OKLAHOMA  
STATEMENT OF NET ASSETS  
JUNE 30, 2012

|  | Primary Government         |                                |                     |
|--|----------------------------|--------------------------------|---------------------|
|  | Governmental<br>Activities | Business<br>Type<br>Activities | Total               |
| <b>ASSETS</b>  |                            |                                |                     |
| Current assets:                                      |                            |                                |                     |
| Cash and cash equivalents                            | \$ 152,193                 | \$ 260,026                     | \$ 412,219          |
| Investments  | -                          | 260,762                        | 260,762             |
| Taxes receivable                                     | 41,812                     | -                              | 41,812              |
| Accounts receivable                                  | -                          | 89,294                         | 89,294              |
| Due from other funds                                 | 2,218                      | 97,521                         | 99,739              |
| Prepaid expense                                      | 6,166                      | 16,823                         | 22,989              |
| Insurance reserve                                    | -                          | 38,619                         | 38,619              |
| Debt service cash and cash equivalents               | -                          | 66,568                         | 66,568              |
| <b>Total current assets</b>                          | <b>202,389</b>             | <b>829,613</b>                 | <b>1,032,002</b>    |
| Non-current assets:                                  |                            |                                |                     |
| Capital assets                                       |                            |                                |                     |
| Land   | -                          | 11,050                         | 11,050              |
| Other capital assets net of accumulated depreciation | 399,283                    | 1,509,889                      | 1,909,172           |
| <b>Total non-current assets</b>                      | <b>399,283</b>             | <b>1,520,939</b>               | <b>1,920,222</b>    |
| <b>Total assets</b>                                  | <b>601,672</b>             | <b>2,350,552</b>               | <b>2,952,224</b>    |
| <b>LIABILITIES</b>                                   |                            |                                |                     |
| Current liabilities:                                 |                            |                                |                     |
| Accounts payable                                     | 3,655                      | 25,529                         | 29,184              |
| Bonds  | 150                        | -                              | 150                 |
| Accrued expenses                                     | -                          | 733                            | 733                 |
| Deferred revenue                                     | 761                        | -                              | 761                 |
| Due to other funds                                   | 47,653                     | 52,086                         | 99,739              |
| Compensated absences                                 | 17,720                     | 26,120                         | 43,840              |
| Utility deposits                                     | -                          | 45,688                         | 45,688              |
| Notes payable, current                               | -                          | 13,250                         | 13,250              |
| <b>Total current liabilities</b>                     | <b>69,939</b>              | <b>163,406</b>                 | <b>233,345</b>      |
| Non-current liabilities:                             |                            |                                |                     |
| Notes payable, non-current                           | -                          | 206,250                        | 206,250             |
| <b>Total non-current liabilities</b>                 | <b>-</b>                   | <b>206,250</b>                 | <b>206,250</b>      |
| <b>Total liabilities</b>                             | <b>69,939</b>              | <b>369,656</b>                 | <b>439,595</b>      |
| <b>NET ASSETS</b>                                    |                            |                                |                     |
| Nonspendable   | 383,195                    | 1,380,450                      | 1,763,645           |
| Reserved for   |                            |                                |                     |
| Debt service   | -                          | 66,568                         | 66,568              |
| Insurance reserve                                    | -                          | 38,619                         | 38,619              |
| Assigned   | 138,544                    | 495,259                        | 633,803             |
| Unassigned   | 9,994                      | -                              | 9,994               |
| <b>Total net assets</b>                              | <b>\$ 531,733</b>          | <b>\$ 1,980,896</b>            | <b>\$ 2,512,629</b> |

The accompanying notes are an integral part of these financial statements.

TOWN OF PORUM, OKLAHOMA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2012

| Function/Programs               | Program Revenue            |  |  |                      | (Expenses)<br>Revenue |
|---------------------------------|----------------------------|--|--|----------------------|-----------------------|
|                                 | Charges<br>For<br>Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions |                      |                       |
|                                 | <u>Expenses</u>            | <u>Services</u>                          | <u>Contributions</u>                   | <u>Contributions</u> | <u>Revenue</u>        |
| <b>Governmental activities</b>  |                            |  |  |                      |                       |
| General government              | \$ 22,630                  | \$ 205                                   | \$ 2,586                               | \$ -                 | \$ (19,839)           |
| Public safety                   | 184,682                    | 22,150                                   | 10,148                                 | -                    | (152,384)             |
| Parks and recreation            | 2,765                      | -  | -                                      | -                    | (2,765)               |
| Street                          | 19,461                     | -  | 6,394                                  | 16,000               | 2,933                 |
| Total governmental activities   | <u>229,538</u>             | <u>22,355</u>                            | <u>19,128</u>                          | <u>16,000</u>        | <u>(172,055)</u>      |
| <b>Business-type activities</b> |                            |  |  |                      |                       |
| Utilities                       | 1,014,323                  | 1,042,148                                | -                                      | -                    | 27,825                |
| Economic development            | 1,267                      | -  | -                                      | -                    | (1,267)               |
| Total business-type activities  | <u>1,015,590</u>           | <u>1,042,148</u>                         | <u>-</u>                               | <u>-</u>             | <u>26,558</u>         |
| Total primary government        | <u>\$1,245,128</u>         | <u>\$1,064,503</u>                       | <u>\$ 19,128</u>                       | <u>\$ 16,000</u>     | <u>\$ (145,497)</u>   |

|                                    | Primary Government         |                             |                     |
|------------------------------------|----------------------------|-----------------------------|---------------------|
|                                    | Governmental<br>Activities | Business-type<br>Activities | Total               |
| <b>Changes in net assets:</b>      |                            |                             |                     |
| Net (expense) revenue              | \$ (172,055)               | \$ 26,558                   | \$ (145,497)        |
| <b>General revenues</b>            |                            |                             |                     |
| <b>Taxes</b>                       |                            |                             |                     |
| Sales tax                          | 120,344                    | -                           | 120,344             |
| Franchise                          | 20,009                     | -                           | 20,009              |
| Other tax                          | 11,450                     | -                           | 11,450              |
| Miscellaneous                      | 1,232                      | -                           | 1,232               |
| Interest                           | 134                        | 1,430                       | 1,564               |
| Transfers, net                     | 26,650                     | (26,650)                    | -                   |
| Total general revenue and transfer | <u>179,819</u>             | <u>(25,220)</u>             | <u>154,599</u>      |
| Change in net assets               | 7,764                      | 1,338                       | 9,102               |
| Net assets - beginning             | <u>523,969</u>             | <u>1,979,558</u>            | <u>2,503,527</u>    |
| Net assets - ending                | <u>\$ 531,733</u>          | <u>\$ 1,980,896</u>         | <u>\$ 2,512,629</u> |

The accompanying notes are an integral part of these financial statements.

TOWN OF PORUM, OKLAHOMA  
BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2012

|  | General<br>Fund  | Grant<br>Funds   | Other<br>Governmental<br>Fund | Total<br>Governmental<br>Fund |
|--|------------------|------------------|-------------------------------|-------------------------------|
| <b>ASSETS</b>                                  |                  |                  |                               |                               |
| Cash and cash equivalents                      | \$ 12,364        | \$ 39,761        | \$ 100,068                    | \$ 152,193                    |
| Taxes receivable                               | 29,868           | -                | 11,944                        | 41,812                        |
| Due from other funds                           | 2,218            | -                | -                             | 2,218                         |
| Prepaid expense                                | 3,695            | -                | 2,471                         | 6,166                         |
| <b>TOTAL ASSETS</b>                            | <u>\$ 48,145</u> | <u>\$ 39,761</u> | <u>\$ 114,483</u>             | <u>\$ 202,389</u>             |
| <b>LIABILITIES AND FUND BALANCES</b>           |                  |                  |                               |                               |
| <b>LIABILITIES</b>                             |                  |                  |                               |                               |
| Accounts payable                               | \$ 2,370         | \$ -             | \$ 1,285                      | \$ 3,655                      |
| Bonds  | -                | -                | 150                           | 150                           |
| Deferred Revenue                               | -                | 761              | -                             | 761                           |
| Due to other funds                             | 8,169            | 39,000           | 484                           | 47,653                        |
| <b>TOTAL LIABILITIES</b>                       | <u>10,539</u>    | <u>39,761</u>    | <u>1,919</u>                  | <u>52,219</u>                 |
| <b>FUND BALANCES</b>                           |                  |                  |                               |                               |
| Nonspendable                                   | 27,612           | (39,761)         | 13,781                        | 1,632                         |
| Assigned                                       | -                | 39,761           | 98,783                        | 138,544                       |
| Unreserved                                     | 9,994            | -                | -                             | 9,994                         |
| <b>TOTAL FUND BALANCES</b>                     | <u>37,606</u>    | <u>-</u>         | <u>112,564</u>                | <u>150,170</u>                |
| <b>TOTAL LIABILITIES AND<br/>FUND BALANCES</b> | <u>\$ 48,145</u> | <u>\$ 39,761</u> | <u>\$ 114,483</u>             | <u>\$ 202,389</u>             |

The accompanying notes are an integral part of these financial statements.

TOWN OF PORUM, OKLAHOMA  
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS  
WITH THE STATEMENT OF NET ASSETS  
JUNE 30, 2012

|   |                  |                   |
|---|------------------|-------------------|
| Total fund balance  |                  | \$ 150,170        |
| Amounts reported in the statement of net assets<br>are different because:   |                  |                   |
| Capital assets used in governmental activities<br>are not financial resources and therefore are<br>not reported as assets in governmental funds.                                  |                  |                   |
| Capital assets  | 676,334          |                   |
| Accumulated depreciation  | <u>(277,051)</u> | 399,283           |
| Liabilities not due and payable in the<br>current period are not reported in the funds.<br>Amounts accrued for compensated absences are<br>not included in the governmental funds |                  |                   |
|   |                  | <u>(17,720)</u>   |
| Total net assets  |                  | <u>\$ 531,733</u> |

The accompanying notes are an integral part of these financial statements.

TOWN OF PORUM, OKLAHOMA  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012

|   | General<br>Fund  | Grant<br>Funds | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|------------------|----------------|--------------------------------|--------------------------------|
| <b>Revenue</b>  |                  |                |                                |                                |
| Sales tax   | \$ 60,172        | \$ -           | \$ 60,172                      | \$ 120,344                     |
| Use tax   | 9,705            | -              | -                              | 9,705                          |
| Cigarette tax   | 1,745            | -              | -                              | 1,745                          |
| Franchise tax   | 20,009           | -              | -                              | 20,009                         |
| Gasoline tax  | -                | -              | 1,351                          | 1,351                          |
| Motor vehicle tax   | -                | -              | 5,043                          | 5,043                          |
| Alcoholic beverage tax  | 2,586            | -              | -                              | 2,586                          |
| Intergovernmental   | -                | 18,152         | 4,413                          | 22,565                         |
| Licenses and permits  | 205              | -              | -                              | 205                            |
| Fines and Forfeitures   | -                | -              | 21,650                         | 21,650                         |
| Fire Runs   | -                | -              | 500                            | 500                            |
| Donations   | -                | -              | 3,583                          | 3,583                          |
| Other   | 1,232            | -              | -                              | 1,232                          |
| Interest  | 100              | 34             | -                              | 134                            |
| <b>Total revenue</b>  | <u>95,754</u>    | <u>18,186</u>  | <u>96,712</u>                  | <u>210,652</u>                 |
| <b>Expenditures</b>   |                  |                |                                |                                |
| <b>Current</b>  |                  |                |                                |                                |
| General government  | 20,242           | 72             | -                              | 20,314                         |
| Police department   | 117,465          | 2,114          | -                              | 119,579                        |
| Parks and recreation  | 537              | -              | -                              | 537                            |
| Court   | 5,025            | -              | 2,180                          | 7,205                          |
| Fire department   | -                | -              | 37,623                         | 37,623                         |
| Street  | -                | 16,000         | 72,672                         | 88,672                         |
| Animal control  | 6,944            | -              | -                              | 6,944                          |
| <b>Total expenditures</b>   | <u>150,213</u>   | <u>18,186</u>  | <u>112,475</u>                 | <u>280,874</u>                 |
| <b>Excess (deficiency)<br/>of revenue over<br/>(under) expenditures</b> | <u>(54,459)</u>  | <u>-</u>       | <u>(15,763)</u>                | <u>(70,222)</u>                |
| <b>Other financing<br/>sources (uses)</b>                               |                  |                |                                |                                |
| Transfer from other funds   | 47,650           | -              | -                              | 47,650                         |
| Transfer to other funds   | -                | -              | (21,000)                       | (21,000)                       |
| <b>Net other financing<br/>sources (uses)</b>                           | <u>47,650</u>    | <u>-</u>       | <u>(21,000)</u>                | <u>26,650</u>                  |
| <b>Net changes in fund balances</b>                                     | (6,809)          | -              | (36,763)                       | (43,572)                       |
| <b>Fund balances, beginning</b>   | <u>44,415</u>    | <u>-</u>       | <u>149,327</u>                 | <u>193,742</u>                 |
| <b>Fund balances, ending</b>  | <u>\$ 37,606</u> | <u>\$ -</u>    | <u>\$ 112,564</u>              | <u>\$ 150,170</u>              |

The accompanying notes are an integral part of these financial statements.

TOWN OF PORUM, OKLAHOMA  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2012

Net changes in fund balances - total governmental funds \$ (43,572)

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 cost 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 | (33,830)      |        |
| Capital outlay       | <u>84,785</u> | 50,955 |

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds. These include the net decrease in compensated absences of \$381.

|                      |  |                 |
|----------------------|--|-----------------|
| Change in net assets |  | <u>381</u>      |
|                      |  | <u>\$ 7,764</u> |

The accompanying notes are an integral part of these financial statements.

TOWN OF PORUM, OKLAHOMA  
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUNDS  
JUNE 30, 2012

|  | <u>Public Works</u> | <u>Development<br/>Authority</u> | <u>Total</u>        |
|--|---------------------|----------------------------------|---------------------|
| <b>ASSETS</b>  |                     |                                  |                     |
| Current assets:  |                     |                                  |                     |
| Cash and cash equivalents                                | \$ 257,507          | \$ 2,519                         | \$ 260,026          |
| Investments  | 260,762             | -                                | 260,762             |
| Accounts receivable                                      | 89,294              | -                                | 89,294              |
| Due from other funds                                     | 97,521              | -                                | 97,521              |
| Prepaid expense  | 16,823              | -                                | 16,823              |
| Insurance reserve  | 38,619              | -                                | 38,619              |
| Debt service cash and cash<br>equivalents                | <u>66,568</u>       | <u>-</u>                         | <u>66,568</u>       |
| Total current assets                                     | <u>827,094</u>      | <u>2,519</u>                     | <u>829,613</u>      |
| Non-current assets                                       |                     |                                  |                     |
| Capital assets:  |                     |                                  |                     |
| Land   | 11,050              | -                                | 11,050              |
| Other capital assets, net of<br>accumulated depreciation | <u>1,443,491</u>    | <u>66,398</u>                    | <u>1,509,889</u>    |
| Total non-current assets                                 | <u>1,454,541</u>    | <u>66,398</u>                    | <u>1,520,939</u>    |
| Total assets   | <u>2,281,635</u>    | <u>68,917</u>                    | <u>2,350,552</u>    |
| <b>LIABILITIES</b>                                       |                     |                                  |                     |
| Current liabilities:                                     |                     |                                  |                     |
| Due to other funds                                       | 2,218               | 49,867                           | 52,085              |
| Accounts Payable   | 25,529              | -                                | 25,529              |
| Accrued interest   | 734                 | -                                | 734                 |
| Compensated absences                                     | 26,120              | -                                | 26,120              |
| Utility deposits   | 45,688              | -                                | 45,688              |
| Note payable, current                                    | <u>13,250</u>       | <u>-</u>                         | <u>13,250</u>       |
| Total current liabilities                                | <u>113,539</u>      | <u>49,867</u>                    | <u>163,406</u>      |
| Non-current liabilities:                                 |                     |                                  |                     |
| Notes payable, non-current                               | <u>206,250</u>      | <u>-</u>                         | <u>206,250</u>      |
| Total non-current liabilities                            | <u>206,250</u>      | <u>-</u>                         | <u>206,250</u>      |
| Total liabilities  | <u>319,789</u>      | <u>49,867</u>                    | <u>369,656</u>      |
| <b>NET ASSETS</b>  |                     |                                  |                     |
| Nonspendable   | 1,363,919           | 16,531                           | 1,380,450           |
| Reserved for debt service                                | 66,568              | -                                | 66,568              |
| Reserved for insurance reserve                           | 38,619              | -                                | 38,619              |
| Assigned   | <u>492,740</u>      | <u>2,519</u>                     | <u>495,259</u>      |
| Net assets of business-type<br>activities                | <u>\$ 1,961,846</u> | <u>\$ 19,050</u>                 | <u>\$ 1,980,896</u> |

The accompanying notes are an integral part of these financial statements.

TOWN OF PORUM, OKLAHOMA  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012

|   | <u>Public Works</u> | <u>Development<br/>Authority</u> | <u>Total</u>        |
|---|---------------------|----------------------------------|---------------------|
| <u>OPERATING REVENUES</u>               |                     |                                  |                     |
| Charges for services:                   |                     |                                  |                     |
| Water charges                           | \$ 823,364          | \$ -                             | \$ 823,364          |
| Wastewater charges                      | 26,650              | -                                | 26,650              |
| Sanitation charges                      | 118,662             | -                                | 118,662             |
| Membership tie-in fees                  | 36,900              | -                                | 36,900              |
| Turn-on charges                         | 20,022              | -                                | 20,022              |
| Penalty                                 | 15,477              | -                                | 15,477              |
| Other revenues                          | 1,073               | -                                | 1,073               |
| Total operating revenues                | <u>1,042,148</u>    | <u>-</u>                         | <u>1,042,148</u>    |
| <u>OPERATING EXPENSES</u>               |                     |                                  |                     |
| Personal services                       | 298,078             | -                                | 298,078             |
| Payroll tax and benefits                | 88,512              | -                                | 88,512              |
| Fuel                                    | 19,704              | -                                | 19,704              |
| Repairs                                 | 99,195              | 30                               | 99,225              |
| Sanitation contractor                   | 117,853             | -                                | 117,853             |
| Professional fees                       | 10,481              | -                                | 10,481              |
| Insurance                               | 14,054              | -                                | 14,054              |
| Materials and supplies                  | 99,626              | -                                | 99,626              |
| Office                                  | 21,948              | -                                | 21,948              |
| Bad Debts                               | 3,385               | -                                | 3,385               |
| License and permits                     | 9,417               | -                                | 9,417               |
| Other operating expense                 | 18,991              | -                                | 18,991              |
| Utilities and telephone                 | 64,187              | -                                | 64,187              |
| Depreciation                            | 142,538             | 1,237                            | 143,775             |
| Total operating expenses                | <u>1,007,969</u>    | <u>1,267</u>                     | <u>1,009,236</u>    |
| Operating income (loss)                 | <u>34,179</u>       | <u>(1,267)</u>                   | <u>32,912</u>       |
| <u>NON-OPERATING REVENUE (EXPENSES)</u> |                     |                                  |                     |
| Interest revenue                        | 1,428               | 2                                | 1,430               |
| Interest on notes payable and fees      | (6,354)             | -                                | (6,354)             |
| Total non-operating revenue (expenses)  | <u>(4,926)</u>      | <u>2</u>                         | <u>(4,924)</u>      |
| Income (loss) before transfer           | 29,253              | (1,265)                          | 27,988              |
| Transfer to other funds                 | (26,650)            | -                                | (26,650)            |
| Total Transfers                         | <u>(26,650)</u>     | <u>-</u>                         | <u>(26,650)</u>     |
| Change in net assets                    | 2,603               | (1,265)                          | 1,338               |
| Total net assets, beginning             | <u>1,959,243</u>    | <u>20,315</u>                    | <u>1,979,558</u>    |
| Total net assets, ending                | <u>\$ 1,961,846</u> | <u>\$ 19,050</u>                 | <u>\$ 1,980,896</u> |

The accompanying notes are an integral part of these financial statements.

TOWN OF PORUM, OKLAHOMA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND TYPE  
FOR THE YEAR ENDED JUNE 30, 2012

|   | Public<br>Works | Development<br>Authority | Total        |
|---|-----------------|--------------------------|--------------|
| Cash flows from operating activities                          |                 |                          |              |
| Cash received from customers                                  | \$ 1,039,024    | \$ -                     | \$ 1,039,024 |
| Cash payments to employees                                    | (386,590)       | -                        | (386,590)    |
| Cash payments to suppliers<br>for goods and services          | (507,168)       | -                        | (507,168)    |
| Net cash provided (used) by<br>operating activities           | 145,266         | -                        | 145,266      |
| Cash flows from non-capital<br>financing activities           |                 |                          |              |
| Transfer to other funds                                       | (26,650)        | -                        | (26,650)     |
| Cash used by non-capital<br>financing activities              | (26,650)        | -                        | (26,650)     |
| Cash flows from capital and<br>related financing activities   |                 |                          |              |
| Acquisition of fixed assets                                   | (61,684)        | -                        | (61,684)     |
| Interest paid on notes payable<br>and fiscal fees             | (6,354)         | -                        | (6,354)      |
| Principal paid on notes payable                               | (12,250)        | -                        | (12,250)     |
| Net cash used for capital and<br>related financing activities | (80,288)        | -                        | (80,288)     |
| Cash flows from investing activities                          |                 |                          |              |
| Transfers to investments                                      | (1,411)         | -                        | (1,411)      |
| Interest revenue  | 1,428           | 2                        | 1,430        |
| Net cash provided by<br>investing activities                  | 17              | 2                        | 19           |
| Net change in cash and cash<br>equivalents                    | 38,345          | 2                        | 38,347       |
| Cash and cash equivalents, beginning                          | 285,730         | 2,517                    | 288,247      |
| Cash and cash equivalents, ending                             | \$ 324,075      | \$ 2,519                 | \$ 326,594   |

The accompanying notes are an integral part of these financial statements.

TOWN OF PORUM, OKLAHOMA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND TYPE  
FOR THE YEAR ENDED JUNE 30, 2012

|  | <u>Public<br/>Works</u> | <u>Development<br/>Authority</u> | <u>Total</u>      |
|--|-------------------------|----------------------------------|-------------------|
| Reconciliation of operating income<br>(loss) to net cash provided by<br>(used) by operating activities |                         |                                  |                   |
| Operating income (loss)  | \$ 34,179               | \$ (1,267)                       | \$ 32,912         |
| Adjustments to reconcile<br>operating income to net cash<br>used by operating activities:              |                         |                                  |                   |
| Depreciation   | 142,538                 | 1,237                            | 143,775           |
| Changes in assets and liabilities:   |                         |                                  |                   |
| Increase in accounts receivable  | (4,925)                 | -                                | (4,925)           |
| Increase in due from other funds   | (30)                    | 30                               | -                 |
| Decrease in prepaid expense  | 1,609                   | -                                | 1,609             |
| Decrease in insurance reserve  | 1,398                   | -                                | 1,398             |
| Decrease in due to other funds   | (11,044)                | -                                | (11,044)          |
| Decrease in accounts payable   | (17,376)                | -                                | (17,376)          |
| Decrease in compensated absences   | (2,884)                 | -                                | (2,884)           |
| Increase in utility deposits   | <u>1,801</u>            | <u>-</u>                         | <u>1,801</u>      |
| Net cash provided by operating<br>activities   | <u>\$ 145,266</u>       | <u>\$ -</u>                      | <u>\$ 145,266</u> |

The accompanying notes are an integral part of these financial statements.

TOWN OF PORUM, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Porum, 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 Porum Public Works Authority and Porum Development Authority are component units. 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 Porum Public Works Authority and Porum Development 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.

Porum Public Works Authority was created October 29, 1962 under the provisions of Title 60 Oklahoma Statutes Sections 176 to 180. The Authority is managed by a Board of Trustees made up of members of the Town Board of Trustees. The Authority operates water, sanitation, and sewer services for the Town of Porum. The Authority is reported as a proprietary fund.

Porum Development Authority was created June 15, 2004 under the provisions of Title 60, Oklahoma Statutes, Section 176 to 180. The Development Authority is managed by a Board of Trustees made up of the Town Board of Trustees. The Development Authority was created for the purpose of promoting economic development in the Porum area. The Development Authority is reported as a proprietary fund.

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.

TOWN OF PORUM, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

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, 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*

Fund financial statements of the Town are provided for governmental, proprietary, and fiduciary 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 APB 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.

TOWN OF PORUM, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation,  
(Continued)

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of 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 charged 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.

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.

Proprietary Funds - The Town reports the following major enterprise funds:

Porum Public Works Authority - The Authority provides certain utility services for the Town.

Budgetary Accounting and Control

The Mayor submits an annual budget to the Board of Trustees in accordance with the Oklahoma Municipal Budget Act. The budget is presented to the Board of Trustees for review, and public hearings are held to address priorities and allocation of resources. In June, the Board of Trustees adopts the annual fiscal year budgets for the Town operating funds. Once approved, the Board of Trustees may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations. Public trusts submit budget and other planning documents to their respective governing bodies.

TOWN OF PORUM, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Budgetary Accounting and Control, (Continued)

Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by sources. Expenditures are budgeted by department and class as follows: Personal services, Other services and charges, supplies, capital outlay, transfers, and debt service. Budget revisions at this level are subject to final review by the Board of Trustees. The legal level of control is by department within a fund. Expenditures may not exceed appropriations at this level. Within these control levels, management may transfer appropriations without Board approval. Revisions to the budget were made during the year.

The budgets for the operating funds and proprietary fund operations are prepared on the cash and expenditures/encumbrances basis. Revenues are budgeted in the year receipt is expected; and expenditures, which include encumbrances, are budgeted in the year that the applicable purchase orders are expected to be issued. Unencumbered appropriations for annually budgeted funds lapse at fiscal year-end.

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.

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 June 30, 2012 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.

TOWN OF PORUM, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

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 |

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.

TOWN OF PORUM, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

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 June 30, 2012, all of the Towns 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 \$739,549 at June 30, 2012. The bank balance of the deposits at June 30, 2012 was approximately \$717,500.

Credit Risk

Fixed-income securities are subject to credit risk. However, the Town did not have fixed income securities at June 30, 2012.

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 monitor's the investment performance on an ongoing basis to limit the Town's interest rate risk. As of June 30, 2012, the Town's deposits consisted of demand deposits and certificates of deposit with a maturity of 12 months or less.

NOTE C - ACCOUNTS RECEIVABLE

The Town records the total due on utility accounts owed the proprietary fund for services unpaid at June 30. Any uncollectible amounts are written-off as they become collectible.

The governmental funds have accrued sales tax, alcoholic beverage tax, gasoline excise tax, and motor vehicle tax to be received in July.

NOTE D - INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables at June 30, 2012 are as follows:

| <u>Amount</u>    | <u>Due To Other Funds</u> | <u>Due From Other Funds</u> |
|------------------|---------------------------|-----------------------------|
| \$ 49,867        | Public Works              | Development Authority       |
| 39,000           | Public Works              | Grant                       |
| 8,170            | Public Works              | General                     |
| 2,218            | General Fund              | Public Works (sewer)        |
| 313              | Public Works              | Street and Alley            |
| 171              | Public Works              | Fire Department             |
| <u>\$ 99,739</u> |                           |                             |

TOWN OF PORUM, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

**NOTE E - INSURANCE RESERVE**

The Proprietary Fund reserved net assets for insurance reserve relate to risk management activities. Town of Porum, 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 Porum, 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 June 30, 2012, the balance in the fund was \$19,016.

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 Porum, 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 Porum, Oklahoma is not obligated to pay any amount in excess of its annual premium. The amount in the escrow account at June 30, 2012 was \$5,811. This money may be refunded on written request.

Renewal premiums to be billed the Town of Porum, 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 Porum, Oklahoma is entitled to a refund of any RSR balance upon termination of their participation in the insurance. The Town of Porum, Oklahoma had \$13,792 in the RSR as of June 30, 2012.

**NOTE F - DEBT SERVICE CASH AND CASH EQUIVALENTS**

The trustee bank for notes payable listed in Note H maintains reserve and sinking fund accounts to accumulate resources for the retirement of the debt. At June 30, 2012, the trustee bank was holding \$66,568 for use in retiring the debt.

TOWN OF PORUM, OKLAHOMA  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2012

NOTE G - CAPITAL ASSETS

Changes in capital assets.

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

|                           | <u>CAPITAL ASSETS, DEPRECIATED</u> |   |  |                     | <u>Capital<br/>Assets Not<br/>Depreciated<br/>Land</u> |
|---------------------------|------------------------------------|---|--|---------------------|--|
|                           | <u>Buildings</u>                   | <u>Infrastructure &amp;<br/>Improvements<br/>Other Than<br/>Buildings</u> | <u>Furniture,<br/>Machinery,<br/>And<br/>Equipment</u> | <u>Totals</u>       |  |
| <b>PRIMARY GOVERNMENT</b> |                                    |   |  |                     |  |
| Governmental activities   |                                    |   |  |                     |  |
| Balance, June 30, 2011    | \$ 96,350                          | \$ 157,657  | \$ 337,542   | \$ 591,549          | \$ -   |
| Increases                 | 9,500                              | 75,285  | -  | 84,785              | -  |
| Decreases                 | -                                  | -   | -  | -                   | -  |
| Balance, June 30, 2012    | <u>105,850</u>                     | <u>232,942</u>  | <u>337,542</u>   | <u>676,334</u>      | <u>-</u>   |
| Accum. Deprec.            |                                    |   |  |                     |  |
| Balance, June 30, 2011    | 40,141                             | 19,775  | 183,305  | 243,221             |  |
| Increase                  | 2,514                              | 7,703   | 23,613   | 33,830              |  |
| Decreases                 | -                                  | -   | -  | -                   |  |
| Balance, June 30, 2012    | <u>42,655</u>                      | <u>27,478</u>   | <u>206,918</u>   | <u>277,051</u>      |  |
| Governmental activities   |                                    |   |  |                     |  |
| Capital Assets, Net       | <u>\$ 63,195</u>                   | <u>\$ 205,464</u>   | <u>\$ 130,624</u>                                      | <u>\$ 399,283</u>   | <u>\$ -</u>  |
| Business-type activities  |                                    |   |  |                     |  |
| Balance, June 30, 2011    | \$ 74,219                          | \$ 3,797,546  | \$ 620,602   | \$ 4,492,366        | \$ 11,050  |
| Increases                 | -                                  | 29,101  | 32,583   | 61,684              | -  |
| Decreases                 | -                                  | -   | -  | -                   | -  |
| Balance, June 30, 2012    | <u>74,219</u>                      | <u>3,826,647</u>  | <u>653,185</u>   | <u>4,554,051</u>    | <u>11,050</u>  |
| Accum. Deprec.            |                                    |   |  |                     |  |
| Balance, June 30, 2011    | 6,584                              | 2,483,513   | 410,290  | 2,900,387           |  |
| Increase                  | 1,237                              | 113,284   | 29,254   | 143,775             |  |
| Decreases                 | -                                  | -   | -  | -                   |  |
| Balance, June 30, 2012    | <u>7,821</u>                       | <u>2,596,797</u>  | <u>439,544</u>   | <u>3,044,162</u>    |  |
| Business-type Activities  |                                    |   |  |                     |  |
| Capital Assets, Net       | <u>\$ 66,398</u>                   | <u>\$ 1,229,850</u>   | <u>\$ 213,641</u>                                      | <u>\$ 1,509,889</u> | <u>\$ 11,050</u>                                       |
| <b>PRIMARY GOVERNMENT</b> |                                    |   |  |                     |  |
| Capital Assets, Net       | <u>\$ 129,593</u>                  | <u>\$ 1,435,314</u>   | <u>\$ 344,265</u>                                      | <u>\$ 1,909,172</u> | <u>\$ 11,050</u>                                       |

DEPRECIATION EXPENSE

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

| GOVERNMENT ACTIVITIES |          | BUSINESS-TYPE ACTIVITIES |            |
|-----------------------|----------|--------------------------|------------|
| General government    | \$ 2,697 | Utilities                | \$ 142,588 |
| Public Safety         | 22,831   | Economic development     | 1,237      |
| Street                | 6,074    |                          |            |
| Park                  | 2,228    |                          |            |

TOWN OF PORUM, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

NOTE H - NOTES PAYABLE PROPRIETARY FUND

The Authority has incurred indebtedness for the expansion of system facilities. The following is a summary of note payable transactions for the year ended June 30, 2012.

|                       | <u>Payable at<br/>July 1, 2011</u> | <u>Addition/<br/>Retirements</u> | <u>Balance at<br/>June 30, 2012</u> |
|-----------------------|------------------------------------|----------------------------------|-------------------------------------|
| Water Resources Board | \$ 231,750                         | \$ (12,250)                      | \$ 219,500                          |
|                       | <u>\$ 231,750</u>                  | <u>\$ (12,250)</u>               | <u>\$ 219,500</u>                   |

A brief description of the outstanding notes payable at June 30, 2012 is set forth below:

| <u>Outstanding</u>  | <u>Amount</u>     |
|---|-------------------|
| Oklahoma Water Resource Board loan dated December 27, 1994, original loan amount of \$350,000, interest rate variable, interest rate at June 30, 2012 was 1.23%, principal and interest determined by trustee bank every six months, matures in August 2023 | <u>219,500</u>    |
| Total   | <u>\$ 219,500</u> |

The annual principal payments due over the next five years and thereafter are as follows. Actual debt service requirements will vary depending on the variable interest rate in effect at the time of payment.

| <u>Year ending June 30</u> | <u>Principal</u>  |
|----------------------------|-------------------|
| 2013                       | \$ 13,000         |
| 2014                       | 14,000            |
| 2015                       | 15,100            |
| 2016                       | 16,400            |
| 2017                       | 17,700            |
| 2018-2022                  | 113,000           |
| 2023-2024                  | <u>30,300</u>     |
| Total                      | <u>\$ 219,500</u> |

The Authority incurred interest of \$3,623 and fees of \$1,980 on long-term debt during the year. Future year interest payments will depend on the interest rate at the time of payment.

TOWN OF PORUM, OKLAHOMA  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2012

NOTE I - DEBT SERVICE COVERAGE

The revenue bond indenture requires the Public Works Authority maintain a schedule of charges, fees, and rates sufficient to produce annual net revenues not less than 1.25 times average annual debt service requirements after payment of all operating and maintenance expense. The appropriation of sales tax by the Town of Porum to the Authority is included for the purpose of calculating net revenue.

Ratio of net revenue to debt service follows:

|                                    |                   |
|------------------------------------|-------------------|
| Operating revenue                  | \$ 1,042,148      |
| Operating expenses                 | 865,431           |
| Revenue Available For Debt Service | <u>\$ 176,717</u> |
| Average Annual Debt Service        | <u>\$ 18,071</u>  |
| Coverage Ratio                     | 9.78 to 1         |

NOTE J - PENSION OBLIGATIONS

The Town participates in two pension plans.

Oklahoma Firefighter's Pension and Retirement System

The Town 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<br/>And Retirement System</u>   |
|--|---|
| Eligibility to Participate   | All full-time or voluntary<br>Firefighters of a participating<br>Municipality hired before age 45   |
| Authority establishing contribution<br>obligation and benefit provisions | State Statute   |
| Plan members' contribution rate  | 8% of covered payroll   |
| Town's contribution rate   | 13% of covered payroll/\$60 per volunteer   |
| Period required to vest  | 10 years  |
| Benefits and eligibility<br>for distribution (full time)                 | 20 years credited service, 2 ½% of final<br>average salary multiplied by the years of<br>credited service with a maximum of 30<br>years considered; If vested, at or after<br>age 50, or after 10 but before 20 years<br>of Credited service, with reduced benefits |
| Benefits and eligibility<br>for distribution (Volunteer)                 | 20 years credited service equal to<br>\$5.46 per month per year of service<br>With a maximum of 30 Years considered   |
| Deferred retirement option   | Yes, 20 years credited service with<br>Continued service for 30 or more years   |

TOWN OF PORUM, OKLAHOMA  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2012

NOTE J - PENSION OBLIGATIONS, (Continued)

Oklahoma Firefighter's Pension and Retirement System, (Continued)

|   |                        |
|---|------------------------|
| Provisions for:                                   |                        |
| Cost of living adjustments<br>(normal retirement) | Yes, if vested by 5/83 |
| Death (duty, non-duty,<br>post-retirement)        | Yes                    |
| Disability  | Yes                    |
| Cost of living allowances                         | Yes                    |

Contributions required by State Statute:

| Fiscal<br>Year | Required<br>Contribution | Percentage<br>Contributed |
|----------------|--------------------------|---------------------------|
| 2012           | \$ 900                   | 100%                      |
| 2011           | 660                      | 100%                      |
| 2010           | 780                      | 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:

|                               |  |
|-------------------------------|--|
| Eligibility                   | All regular, full-time employees except police, firefighters and other employees who are covered under an approved system and who have been employed for at least twelve months. |
| Employee contributions        | 7.75% of pay.  |
| Employer contribution         | 5.13% 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 employers.   |
| 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.  |
| Accrued Benefit               | Plan AA<br>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.                           |

TOWN OF PORUM, OKLAHOMA  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2012

Oklahoma Municipal Retirement Fund, (Continued)

|   |   |
|---|---|
| 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         |   |
| 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                           |   |
| 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 <sup>st</sup> based on the percentage change in the CPI. The maximum increase is 3% per year. |

Contributions required:

| <u>Fiscal Year</u> | <u>Required Contribution</u> | <u>Percentage Contributed</u> |
|--------------------|------------------------------|-------------------------------|
| 2012               | \$ 19,124                    | 100%                          |
| 2011               | 17,972                       | 100%                          |
| 2010               | 20,098                       | 100%                          |

**NOTE K - 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.

**NOTE L - FEDERAL AND STATE GRANTS**

In the normal course of operations, the Town receives grant funds from various federal and state agencies. The grant programs are subject to audit by agents of the granting authorities the purpose of which is to ensure compliance with conditions precedent to the granting of the funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

TOWN OF PORUM, OKLAHOMA  
 COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2012

|  | <u>Street<br/>And<br/>Alley</u> | <u>Fire<br/>Department</u> | <u>Court</u>    | <u>Total<br/>Nonmajor<br/>Funds</u> |
|--|---------------------------------|----------------------------|-----------------|-------------------------------------|
| <b>ASSETS</b>                                  |                                 |                            |                 |                                     |
| Cash and cash equivalents                      | \$ 54,294                       | \$ 43,258                  | \$ 2,516        | \$ 100,068                          |
| Taxes receivable                               | 6,567                           | 5,377                      | -               | 11,944                              |
| Prepaid expense                                | <u>-</u>                        | <u>2,471</u>               | <u>-</u>        | <u>2,471</u>                        |
| <b>TOTAL ASSETS</b>                            | <u>\$ 60,861</u>                | <u>\$ 51,106</u>           | <u>\$ 2,516</u> | <u>\$ 114,483</u>                   |
| <b>LIABILITIES AND FUND BALANCES</b>           |                                 |                            |                 |                                     |
| <b>LIABILITIES</b>                             |                                 |                            |                 |                                     |
| Accounts payable                               | \$ 669                          | \$ 616                     | \$ -            | \$ 1,285                            |
| Bonds  | -                               | -                          | 150             | 150                                 |
| Due to other funds                             | <u>313</u>                      | <u>171</u>                 | <u>-</u>        | <u>484</u>                          |
| <b>TOTAL LIABILITIES</b>                       | <u>982</u>                      | <u>787</u>                 | <u>150</u>      | <u>1,919</u>                        |
| <b>FUND BALANCES</b>                           |                                 |                            |                 |                                     |
| Nonspendable                                   | 6,254                           | 7,677                      | (150)           | 13,781                              |
| Assigned                                       | <u>53,625</u>                   | <u>42,642</u>              | <u>2,516</u>    | <u>98,783</u>                       |
| <b>TOTAL FUND BALANCES</b>                     | <u>59,879</u>                   | <u>50,319</u>              | <u>2,366</u>    | <u>112,564</u>                      |
| <b>TOTAL LIABILITIES AND<br/>FUND BALANCES</b> | <u>\$ 60,861</u>                | <u>\$ 51,106</u>           | <u>\$ 2,516</u> | <u>\$ 114,483</u>                   |

The accompanying notes are an integral part of these financial statements.

TOWN OF PORUM, OKLAHOMA  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2012

|   | Street<br>And<br>Alley | Fire<br>Department | Court           | Total<br>Nonmajor<br>Funds |
|---|------------------------|--------------------|-----------------|----------------------------|
| <b>REVENUES</b>   |                        |                    |                 |                            |
| Sales tax   | \$ 30,086              | \$ 30,086          | \$ -            | \$ 60,172                  |
| Vehicle tax   | 5,043                  | -                  | -               | 5,043                      |
| Gasoline tax  | 1,351                  | -                  | -               | 1,351                      |
| Intergovernmental   | -                      | 4,413              | -               | 4,413                      |
| Fire Runs   | -                      | 500                | -               | 500                        |
| Donation  | -                      | 3,583              | -               | 3,583                      |
| Fines and forfeits  | -                      | -                  | 21,650          | 21,650                     |
| <b>TOTAL REVENUES</b>                                     | <u>36,480</u>          | <u>38,582</u>      | <u>21,650</u>   | <u>96,712</u>              |
| <b>EXPENDITURES</b>                                       |                        |                    |                 |                            |
| <b>Current</b>  |                        |                    |                 |                            |
| Street  | 72,672                 | -                  | -               | 72,672                     |
| Court   | -                      | -                  | 2,180           | 2,180                      |
| Fire department   | -                      | 37,623             | -               | 37,623                     |
| <b>TOTAL EXPENDITURES</b>                                 | <u>72,672</u>          | <u>37,623</u>      | <u>2,180</u>    | <u>112,475</u>             |
| Excess of revenues over<br>(under) expenditures           | <u>(36,192)</u>        | <u>959</u>         | <u>19,470</u>   | <u>(15,763)</u>            |
| Other financing sources (uses)<br>Transfer to other funds | <u>-</u>               | <u>-</u>           | <u>(21,000)</u> | <u>(21,000)</u>            |
| Net changes in fund balances                              | (36,192)               | 959                | (1,530)         | (36,763)                   |
| Fund balances, beginning                                  | <u>96,071</u>          | <u>49,360</u>      | <u>3,896</u>    | <u>149,327</u>             |
| Fund balances, ending                                     | <u>\$ 59,879</u>       | <u>\$ 50,319</u>   | <u>\$ 2,366</u> | <u>\$ 112,564</u>          |

The accompanying notes are an integral part of these 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 Board of Trustees  
Town of Porum  
Porum, 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 Porum, Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise the Town of Porum, Oklahoma's basic financial statements, and have issued my report thereon dated February 5, 2013 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 Porum, 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 Porum, Oklahoma's internal control over financial reporting. Accordingly, I do not express an opinion of the effectiveness of Town of Porum, 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 Porum, 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,

A handwritten signature in cursive script that reads "Ralph Osborn".

Ralph Osborn  
Certified Public Accountant  
Bristow, Oklahoma  
February 5, 2013