

TOWN OF WILLOW
Report on the Audit of the
Financial Statements
as of and for the twelve months ended
June 30, 2010

DAVID O. TATE
Certified Public Accountant
Mangum, Oklahoma 73554

Town of Willow
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June 30, 2010

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David O. Tate

Certified Public Accountant
112 North Oklahoma, Suite A
Mangum, Oklahoma 73554

To the governing body
The Town of Willow

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 Willow as of and for the twelve months ended June 30, 2010, 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 Willow's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States and "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.

As discussed in Note 1 to the financial statements, the Town of Willow prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

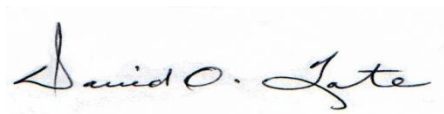
Also, as discussed in Note 1 to the financial statements, management has not recorded general property and equipment acquired before July 1, 2003, in governmental or business-type activities and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those general infrastructure assets, buildings and equipment be capitalized and depreciated, which would increase the assets, net assets, and expenses of the governmental activities. The amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not reasonably determinable.

In my opinion, because of the adverse 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 governmental activities of the Town of Willow, as of June 30, 2010, and the changes in financial position for the twelve months then ended nor the financial position of the business-type activities of the Town of Willow as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the twelve months then ended in accordance with accounting principles generally accepted in the United States of America.

Further, in my opinion, the financial statements referred to above present fairly the financial position of the governmental funds of the Town of Willow as of June 30, 2010, and the changes in fund balances for the twelve months then ended in conformity with the basis of accounting described above.

In accordance with Government Auditing Standards, I have also issued my report dated July 21, 2011, on my consideration of the Town of Willow's internal control over financial reporting and on my tests of compliance with certain 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 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.

Management has elected not to include required supplementary information, management's discussion and analysis and budgetary information, as indicated in Governmental Accounting Standards Board Statement 34.

A handwritten signature in black ink that reads "David O. Tate". The signature is written in a cursive style with a large initial 'D' and 'T'.

Certified Public Accountant
July 21, 2011

David O. Tate
Certified Public Accountant
112 North Oklahoma, Suite A
Mangum, Oklahoma 73554

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit
of the Financial Statements Performed in Accordance with "Government Auditing Standards"

Board of Commissioners
Town of Willow

I have audited the financial statements of the Town of Willow, as of and for the year ended June 30, 2010, and have issued my report thereon dated July 21, 2011. These financial statements were prepared on the modified cash basis of accounting. Further, the Town of Willow has not maintained an historical record of property and equipment prior to July 1, 2003 resulting in an adverse opinion being issued on the financial statements of the governmental and business type activities and the proprietary funds. The opinion on the governmental fund statements was unqualified. I conducted my audit in accordance with generally accepted auditing standards applicable to financial audits contained in "Government Auditing Standards", issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Town of Willow'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".

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Town of Willow's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. The Town of Willow has only one person responsible for utility billing, collection of the accounts, and posting to accounts receivable. This lack of division of responsibilities in handling cash receipts would, in my opinion, constitute a material weakness in internal control.

This report is intended solely for the information and use of the granting agencies and/or governments and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountant
July 21, 2011

Town of Willow
Statement of Net Assets-Modified Cash Basis
June 30, 2010

	Primary Government		
	Governmental activities	Business-type activities	Total
Assets			
Cash and cash equivalents	17,328	14,102	31,430
Investments	114,604		114,604
Restricted assets:			
Cash and cash equivalents		10,964	10,964
Capital assets (Note 3)			
Property and equipment, net of accumulated depreciation	112,754	66,321	179,075
Deposits with third party administr	3,519		3,519
Total assets	248,206	91,386	339,592
Liabilities			
Long-term liabilities (Note 3)			
Refundable deposits		10,964	10,964
Total liabilities	-	10,964	10,964
Net assets			
Invested in capital assets, net of related debt	112,754	66,321	179,075
Restricted for:			
Other purposes			-
Unrestricted	135,451	14,102	149,553
Total net assets	248,206	80,423	328,629
Total liabilities and net assets	248,206	91,386	339,592

See the accompanying notes to the basic financial statements

Town of Willow
Statement of Activities-Modified Cash Basis
For the twelve months ended June 30, 2010

Functions/programs	Expenses	Program revenues	Operating grants and contributions	Net (expense) revenue and changes in net assets		
				Governmental activities	Primary government business-type activities	Total
Primary government						
Governmental activities						
General government	22,368	2,119		(20,249)		(20,249)
Total governmental activities	22,368	2,119	-	(20,249)		(20,249)
Business-type activities						
Utility services	103,509	117,212			13,703	13,703
Total business-type activities	103,509	117,212			13,703	13,703
Total primary government activities	125,877	119,331	-	(20,249)	13,703	(6,546)
General revenues						
Taxes						
Sales and use tax						
Alcoholic beverage/gasoline excise/commercial motor vehicle						
Tobacco						
Investment income						
Gifts						
Other						
Transfers, internal activity						
Total general revenues						
Change in net assets						
Net assets, July 1, 2009						
Net assets, June 30, 2010						
See the accompanying notes to the basic financial statements						

Town of Willow				
Balance Sheet-Modified Cash Basis				
Governmental Funds				
June 30, 2010				
		General	Other	
		fund	governmental	Total
			funds	
Assets				
Cash and cash equivalents		15,766	1,562	17,328
Investments		10,291	104,313	114,604
Deposits with third party administr		3,519		3,519
Total assets		29,576	105,875	135,451
Liabilities and Fund Balances				
Liabilities				
Due to other funds				-
Total liabilities		-	-	-
Fund balances:				
Unreserved		29,576	105,875	135,451
Total fund balance		29,576	105,875	135,451
Total liabilities and fund balance		29,576	105,875	135,451
Reconciliation to Statement of Net Assets:				
Amounts reported for governmental activities in the statement of net assets are different because:				
Balances due from business-type activities are eliminated in the government-wide statements but are included in the fund statements				
Capital assets used in governmental activities of \$177,375., net of accumulated depreciation of \$64,621 are not financial resources and, therefore are not reported in the funds				
				112,754
Net assets of governmental activities				248,205
See the accompanying notes to the basic financial statements				

Town of Willow
Statement of Revenues, Expenditures, and
Changes in Fund Balances-Modified Cash
Basis-Governmental Funds
For the twelve months ended June 30, 2010

	General fund	Other governmental funds	Total
Revenues:			
Taxes	7,536		7,536
Charges for services	2,119	220	2,339
Lot sales		700	700
Contributions	1,000		1,000
Intergovernmental			-
Interest	104	2,104	2,208
Other	1,175		1,175
Total revenues	<u>11,934</u>	<u>3,024</u>	<u>14,957</u>
Expenditures:			
General government			
Personal services			-
Maintenance/operation	3,552	6,155	9,707
Capital outlay	-		-
Total expenditures	<u>3,552</u>	<u>6,155</u>	<u>9,707</u>
Excess (deficiency) of revenues over expenditures	<u>8,382</u>	<u>(3,131)</u>	<u>5,251</u>
Other financing sources (uses):			
Transfers in	84		84
Transfers out			-
Total other financing sources (uses)	<u>84</u>	<u>-</u>	<u>84</u>
Net change in fund balances	8,466	(3,131)	5,335
Fund balances, July 1, 2009	<u>14,709</u>	<u>102,724</u>	<u>117,433</u>
Fund balances, June 30, 2010	<u><u>23,175</u></u>	<u><u>99,593</u></u>	<u><u>122,768</u></u>
See the accompanying notes to the basic financial statements			

Town of Willow
Statement of Net Assets-Modified Cash Basis
Proprietary Fund
June 30, 2010

	Willow Municipal Authority Enterprise Fund
Assets	
Current assets	
Cash and cash equivalents	14,102
Investments	
Restricted assets:	
Cash and cash equivalents	10,964
Total current assets	25,066
Property and equipment (Note 3)	
Property and equipment, net of accumulated depreciation	66,321
Total property and equipment	66,321
Total assets	91,387
Liabilities	
Noncurrent liabilities	
Refundable deposits	10,964
Due to other funds	
Total noncurrent liabilities	10,964
Total liabilities	10,964
Net assets	
Invested in capital assets, net of related debt	66,321
Restricted	
Debt service	
Other	10,964
Unrestricted	3,139
Total net assets	80,423
Total liabilities and net assets	91,387
See the accompanying notes to the basic financial statements	

Town of Willow						Exhibit F
Statement of Revenues, Expenditures, and						
Changes in Fund Balances-Modified Cash						
Basis-Proprietary Fund						
For the twelve months ended June 30, 2010						
						Willow
						Municipal
						Authority
						Enterprise
						Fund
Operating revenues:						
Utility services						116,799
Cost of utility services						49,615
Gross revenue from utility services						67,185
Franchise tax						
Other revenue						412
Gross revenue from operations						67,597
Operating expenses:						
Repairs/maintenance						3,102
Salaries/wages and related payroll taxes						7,640
Utilities						4,335
Depreciation						3,117
Contracted services						14,634
Other						21,066
Total operating expenses						53,894
Operating income (loss)						13,702
Non-operating revenues (expenses):						
Investment income						4
Total non-operating revenues (expenses)						4
Net income (loss) before contributions and transfers						13,706
Transfers out						(84)
Change in net assets						13,622
Net assets, July 1, 2009						66,801
Net assets, June 30, 2010						80,423
See the accompanying notes to the basic financial statements						

Town of Willow				
Statement of Cash Flows-Modified Cash Basis				
Proprietary Fund				
For the twelve months ended June 30, 2010				
				Willow Municipal Authority Enterprise Fund
Cash flows from operating activities				
Receipts from customers				117,211
Payments to suppliers				(92,752)
Payments to employees				(7,640)
Customer's utility security deposits				32
Net cash provided by (used in) operating activities				16,851
Cash flows from capital and related financing activities:				
Acquisition of property and equipment				
Total cash flows provided by (used in) capital and related financing activities				-
Cash flows from noncapital financing activities				
Transfers to other funds				(84)
Transfers from other funds				
Net cash provided by (used in) noncapital financing activities				(84)
Cash flows from investing activities:				
Purchase of investments				
Interest earned				4
Net cash flows provided by (used in) investing activities				4
Net increase (decrease) in cash and cash equivalents				16,771
Balance, July 1, 2009				8,294
Balance, June 30, 2010				25,065
See the accompanying notes to the basic financial statements				

Town of Willow
Statement of Cash Flows-Modified Cash Basis
Proprietary Fund
For the twelve months ended June 30, 2010

	Willow Municipal Authority Enterprise Fund
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	13,702
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:	
Depreciation expense	3,117
Increase (decrease) in:	
Customer meter deposits	32
Net cash provided by (used in) operating activities	<u>16,852</u>

See the accompanying notes to the basic financial statements

Town of Willow
Notes to the Basic Financial Statements
June 30, 2010

Note 1-Significant Accounting Policies

- A. **Summary of Significant Accounting Policies.**
As discussed further in Note 1. D., these financial statements are presented on a modified cash basis of accounting. This modified cash basis differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.
- B. **Financial Reporting Entity.**
The Town's financial reporting entity is composed of the following:
Primary government: Town of Willow
Blended component unit: Willow Municipal Authority

In determining the financial reporting entity, the Town of Willow complies with the provisions of Governmental Accounting Standards Board Statement 14, "The Financial Reporting Entity".

Blended 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 governing body of the primary government, or the component unit provides services entirely to the primary government. The component unit's funds are blended into those of the Town of Willow by appropriate fund type to constitute the primary government presentation. The blended component unit is the Willow Municipal Authority. The fund is included in the Willow Municipal Authority Enterprise Fund.

The component unit does not issue separately audited component unit financial statements.

- C. **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 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.

Town of Willow
Notes to the Basic Financial Statements
June 30, 2010

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 two major categories: governmental and proprietary. The Town of Willow 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:

1. 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.
2. 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

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 account 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.

1. Cemetery Fund. This fund accounts for revenues and expenditures dedicated to maintenance of the cemetery.

Town of Willow
Notes to the Basic Financial Statements
June 30, 2010

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 Willow Municipal Authority to account for activities of the public trust in providing water, wastewater, sanitation and natural gas distribution services to the public.

D. 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, within the limitations of the modified cash basis of accounting as defined below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus, as applied to the modified cash basis of accounting, is used as appropriate:

1. All governmental funds use 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 resources at the end of the period.
2. 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.

Town of Willow
Notes to the Basic Financial Statements
June 30, 2010

Basis of accounting

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 a modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation in the government-wide statements, proprietary fund statements, and the similar discretely presented component unit statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) *are not recorded* in these financial statements.

If the Town utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting.

E. Assets, Liabilities, and Equity

Cash and cash equivalents

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less. Trust account investments in open-ended mutual fund shares are also considered cash equivalents.

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.

Capital assets

The Town's modified cash basis of accounting reports capital assets resulting from cash transactions and reports depreciation where appropriate. The accounting treatment over property 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.

Town of Willow
Notes to the Basic Financial Statements
June 30, 2010

Government-Wide Statements

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

Depreciation of all exhaustible capital assets arising from cash transactions will be recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation will be 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:

Buildings	40-50 years
Improvements other than buildings	10-25 years
Machinery, furniture, and equipment	3-20 years
Utility property and improvements	10-50 years
Infrastructure	25-50 years

Management has not recorded general infrastructure assets, buildings and equipment acquired before July 1, 2003, in governmental activities and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those general infrastructure assets, buildings and equipment be capitalized and depreciated, which would increase the assets, net assets, and expenses of the government activities.

Fund Financial Statements

All long-term debt arising from cash basis transactions to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements.

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

Town of Willow
Notes to the Basic Financial Statements
June 30, 2010

Equity Classification

Government-Wide Statements

Equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt-Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
2. Restricted net assets-Consists of net assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws and regulations of other governments or by law through constitutional provisions or enabling legislation.
3. Unrestricted net assets-All other assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

It is the Town's policy to first use restricted net assets prior to the use of unrestricted net assets when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Financial Statements

Government fund equity is classified as fund balance. Proprietary fund equity is classified the same as in government-wide statements.

F. Revenues, Expenditures, and Expenses

Program revenues

In the Statement of Activities, modified cash basis revenues 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:

General government	Rents
--------------------	-------

All other governmental revenues are reported as general. All taxes are classified as general revenue even if restricted for a specific purpose.

Town of Willow
Notes to the Basic Financial Statements
June 30, 2010

Operating revenue and expenses

Operating revenues and expenses for proprietary funds and the similar discretely presented component units (if applicable) 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.

G. 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 financial statements have been eliminated or reclassified.

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 expenditures/expenses in the respective funds.
4. Interfund transfers-Flow of assets from one fund to another where repayment is not expected is 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 residual amounts due between governmental and business-type activities, which are reported as Internal Balances.

Town of Willow
Notes to the Basic Financial Statements
June 30, 2010

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 Municipal 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.

H. Use of Estimates

The preparation of financial statements in conformity with the other comprehensive basis of accounting (OCBOA) used by the Town 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 governmental unit, the Town and its component units are subject to various federal, state, and local laws and contractual regulations.

Note 3-Detail Notes-Transaction Classes/Accounts

A. Cash and investments

Custodial credit risk-deposits

The table presented below is designed to disclose the level of custodial risk assumed by the Town based upon how its deposits were insured or secured with collateral at June 30, 2010. The comparison relates to the primary government only. The categories of custodial credit risk are defined as follows:

Category 1	Insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized with securities held by the Town (or public trust) or by its agent in its name
Category 2	Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the Town's name.
Category 3	Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution or by its trust department or agency but not in the Town's name; or properly collateralized with no written and approved collateral agreement.

Town of Willow
Notes to the Basic Financial Statements
June 30, 2010

Primary government

Type of deposits	Total bank balance	Custody credit risk category			Total carrying value
		1	2	3	
Insured deposits	157,159	157,159			
Uninsured deposits:					
Collateralized					
Uncollateralized					
Total deposits	157,159	157,159	-	-	157,159
Petty cash					-
					157,159
Reconciliation to government-wide Statement of Net Assets					
					Cash and cash equivalents
					46,394
					Investments
					114,604
					160,998

Investments and custodial credit risk

Investments 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 of Oklahoma 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 limitations, 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.

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B. Restricted assets

The amounts reported as restricted assets are composed of amounts held by the Willow Municipal Authority for utility deposits (refunded upon termination of service or applied to the final bill) of \$7,881.

C. Capital assets

Capital asset activity, resulting from modified cash basis transactions, for the fiscal year ended June 30, 2010, was as follows:

Governmental activities:				
	Balance			Balance
Description	July 1, 2009	Additions	Retirements	June 30, 2010
Buildings	122,375			122,375
Vehicles	55,000			55,000
Total governmental property and equipment	177,375	-	-	177,375
Less accumulated depreciation	51,960	12,661		64,621
Net governmental property and equipment	125,415	12,661	-	112,754
Business-type activities:				
Construction work in progress	17,037			17,037
Water system/improvements	52,348			52,348
Machinery/equipment	4,999			4,999
Total business-type property and equipment	74,384	-	-	74,384
Less accumulated depreciation	4,946	3,117		8,063
Net business-type property and equipment	69,438	3,117	-	66,321
Total government-wide property and equipment	194,854	15,778	-	179,075

During the twelve months ended June 30, 2010, the sum of \$12,661 was charged against net assets in the governmental activities and \$3,117 against net assets in the business-type activities.

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D. Long-term liabilities

The reporting entity's long-term liabilities arising from cash transactions is to be repaid from business-type activities.

As of June 30, 2010, the long-term liabilities, arising from cash transactions, payable from proprietary fund resources consisted of the following:

	June 30	
	2009	2010
Refundable utility deposits	10,931	10,964
Total	10,931	10,964

	Refundable deposits:				
	Refundable deposits reported as a liability within the Statement of Net Assets are composed of the following:				
	Utility deposits-refundable			10,931	

The following is a summary of changes in long-term debt for the year ended June 30, 2010:

Type of debt	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Amount due within one year
Business type activities:					
Refundable deposits	10,931	33		10,964	-
Total business type activities	10,931	33	-	10,964	-

Note 4-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. The Town manages these various risks of loss by purchasing commercial insurance. In so doing, each incidence may have a nominal deductible amount that is uninsured, but no material risk of loss is retained.