

**TOWN OF WILLOW**  
Report on the Audit of the  
Financial Statements  
as of and for the twelve months ended  
June 30, 2011

DAVID O. TATE  
Certified Public Accountant  
Mangum, Oklahoma 73554

Town of Willow  
Table of Contents  
June 30, 2011

Independent Auditor's Report	3
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"	5
<b>Basic financial statements</b>	
Government-wide Financial Statements	
Exhibit A- Statement of Net Assets—Modified Cash Basis	7
Exhibit B-Statement of Activities—Modified Cash Basis	8
Fund Financial Statements	
Exhibit C-Balance Sheet-Modified Cash Basis-Governmental Funds	9
Exhibit D-Statement of Revenues, Expenditures, and Changes in Fund Balance—Modified Cash Basis-Governmental Funds	10
Exhibit E-Statement of Net Assets-Modified Cash Basis—Proprietary Fund	12
Exhibit F-Statement of Revenues, Expenses, and Changes in Fund Net Assets—Modified Cash Basis—Proprietary Fund	13
Exhibit G-Statement of Cash Flows—Modified Cash Basis—Proprietary Fund	14
Notes to the basic financial statements	16

***David O. Tate***

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

Independent Auditor's Report

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, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of 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, 2011, 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, 2011, 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, 2011, 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 31, 2012, 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 31, 2012

***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 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, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. 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.

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 but not for the purpose of expressing an opinion on the effectiveness of the Town of Willow's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Town of Willow's internal control over financial reporting.

A deficiency in internal control exists when the design and operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

My consideration of internal control over financial reporting was for the limited purposes 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

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".

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.

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 31, 2012

Town of Willow  
Statement of Net Assets-Modified Cash Basis  
June 30, 2011

	Primary Government		
	Governmental activities	Business-type activities	Total
<b>Assets</b>			
Cash and cash equivalents	42,697	13,943	56,640
Investments	114,779		114,779
Restricted assets:			
Cash and cash equivalents		12,417	12,417
Capital assets (Note 3)			
Property and equipment, net of accumulated depreciation	100,093	130,352	230,445
Deposits with third party administr	3,471		3,471
<b>Total assets</b>	<b>261,041</b>	<b>156,712</b>	<b>417,753</b>
<b>Liabilities</b>			
Long-term liabilities (Note 3)			
Refundable deposits		12,417	12,417
<b>Total liabilities</b>	<b>-</b>	<b>12,417</b>	<b>12,417</b>
<b>Net assets</b>			
Invested in capital assets, net of related debt	100,093	130,352	230,445
Restricted for:			
Other purposes			-
Unrestricted	160,948	13,943	174,891
<b>Total net assets</b>	<b>261,041</b>	<b>144,295</b>	<b>405,336</b>
<b>Total liabilities and net assets</b>	<b>261,041</b>	<b>156,712</b>	<b>417,753</b>

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, 2011							
Functions/programs	Expenses	Program revenues	Charges for services	Operating grants and contributions	Net (expense) revenue and changes in net assets		
					Primary government		Total
					Governmental activities	business-type activities	
Primary government							
Governmental activities							
General government	24,452	1,382	67,149	44,078			44,078
Total governmental activities	24,452	1,382	67,149	44,078			44,078
Business-type activities							
Utility services	103,497	95,484				(8,013)	(8,013)
Total business-type activities	103,497	95,484				(8,013)	(8,013)
Total primary government activities	127,950	96,866	67,149	44,078		(8,013)	36,065
General revenues							
Taxes							
Sales and use tax					5,954		5,954
Alcoholic beverage/gasoline excise/commercial motor vehicle					2,387		2,387
Tobacco					90		90
Investment income					1,817	14	1,831
Donations/gifts					175		175
Reimbursements					25,269		25,269
Cemetery lot sales					1,675		1,675
Other					1,073		1,073
Transfers, internal activity					(67,645)	67,645	(0)
Total general revenues					(29,205)	67,659	38,454
Change in net assets					14,874	59,646	74,519
Net assets, July 1, 2010					246,167	84,649	330,816
Net assets, June 30, 2011					261,041	144,295	405,335

See the accompanying notes to the basic financial statements



Town of Willow				
Balance Sheet-Modified Cash Basis				
Governmental Funds				
June 30, 2011				
		General	Other	
		fund	governmental	Total
			funds	
<b>Assets</b>				
Cash and cash equivalents		31,023	11,674	42,697
Investments		10,466	104,313	114,779
Deposits with third party administr		3,471		3,471
<b>Total assets</b>		<b>44,960</b>	<b>115,987</b>	<b>160,947</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Due to other funds				-
<b>Total liabilities</b>		<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund balances:</b>				
Unreserved		44,960	115,987	160,947
<b>Total fund balance</b>		<b>44,960</b>	<b>115,987</b>	<b>160,947</b>
<b>Total liabilities and fund balance</b>		<b>44,960</b>	<b>115,987</b>	<b>160,947</b>
<b>Reconciliation to Statement of Net Assets:</b>				
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 \$77,282 are not financial resources and, therefore are not reported in the funds				
				100,093
<b>Net assets of governmental activities</b>				<b>261,040</b>
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, 2011

	General fund	Other governmental funds	Total
Revenues:			
Taxes	8,431		8,431
Charges for services	132	1,250	1,382
Lot sales		1,675	1,675
Contributions		175	175
Intergovernmental	67,149		67,149
Interest	302	1,515	1,817
Reimbursements	25,269		25,269
Other	1,063	10	1,073
<b>Total revenues</b>	<b>102,346</b>	<b>4,625</b>	<b>106,971</b>
Expenditures:			
General government			
Personal services			-
Maintenance/operation	9,942	1,849	11,791
Capital outlay			-
<b>Total expenditures</b>	<b>9,942</b>	<b>1,849</b>	<b>11,791</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>92,404</b>	<b>2,776</b>	<b>95,180</b>
Other financing sources (uses):			
Transfers in		100	100
Transfers out	(67,745)	-	(67,745)
<b>Total other financing sources (uses)</b>	<b>(67,745)</b>	<b>100</b>	<b>(67,645)</b>
<b>Net change in fund balances</b>	<b>24,659</b>	<b>2,876</b>	<b>27,535</b>
Fund balances, July 1, 2010	20,301	113,111	133,412
Fund balances, June 30, 2011	44,960	115,987	160,947
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, 2011

Net change in fund balances-total governmental funds	27,535
Reconciliation to the Statement of Activities	
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
Capital assets purchased capitalized	-
Depreciation expense	(12,661)
	<u>(12,661)</u>
Change in Net Assets of Governmental Activities	<u>14,874</u>

See the accompanying notes to the basic financial statements

Town of Willow  
Statement of Net Assets-Modified Cash Basis  
Proprietary Fund  
June 30, 2011

	Willow Municipal Authority Enterprise Fund
<b>Assets</b>	
<b>Current assets</b>	
Cash and cash equivalents	13,843
Investments	
Restricted assets:	
Cash and cash equivalents	12,517
<b>Total current assets</b>	<b>26,360</b>
<b>Property and equipment (Note 3)</b>	
Property and equipment, net of accumulated depreciation	130,352
<b>Total property and equipment</b>	<b>130,352</b>
<b>Total assets</b>	<b>156,712</b>
<b>Liabilities</b>	
<b>Noncurrent liabilities</b>	
Refundable deposits	12,417
Due to other funds	
<b>Total noncurrent liabilities</b>	<b>12,417</b>
<b>Total liabilities</b>	<b>12,417</b>
<b>Net assets</b>	
Invested in capital assets, net of related debt	130,352
Restricted	
Debt service	
Other	12,417
Unrestricted	1,526
<b>Total net assets</b>	<b>144,295</b>
<b>Total liabilities and net assets</b>	<b>156,712</b>
See the accompanying notes to the basic financial statements	

Town of Willow						
Statement of Revenues, Expenditures, and						
Changes in Fund Balances-Modified Cash						
Basis-Proprietary Fund						
For the twelve months ended June 30, 2011						
						Willow Municipal Authority Enterprise Fund
Operating revenues:						
Utility services						95,284
Cost of utility services						40,345
Gross revenue from utility services						54,939
Other revenue						200
Gross revenue from operations						55,139
Operating expenses:						
Repairs/maintenance						7,755
Salaries/wages and related payroll taxes						8,409
Utilities						5,190
Depreciation						3,117
Contracted services						16,313
Other						22,370
Total operating expenses						63,152
Operating income (loss)						(8,014)
Non-operating revenues (expenses):						
Investment income						14
Total non-operating revenues (expenses)						14
Net income (loss) before contributions and transfers						(8,000)
Transfers in						67,645
Change in net assets						59,645
Net assets, July 1, 2010						84,649
Net assets, June 30, 2011						144,294
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, 2011				
				Willow Municipal Authority Enterprise Fund
Cash flows from operating activities				
Receipts from customers				95,484
Payments to suppliers				(91,971)
Payments to employees				(8,409)
Customer's utility security deposits				1,453
Net cash provided by (used in) operating activities				(3,443)
Cash flows from capital and related financing activities:				
Acquisition of property and equipment				(67,149)
Total cash flows provided by (used in) capital and related financing activities				(67,149)
Cash flows from noncapital financing activities				
Transfers to other funds				
Transfers from other funds				67,645
Net cash provided by (used in) noncapital financing activities				67,645
Cash flows from investing activities:				
Purchase of investments				
Interest earned				14
Net cash flows provided by (used in) investing activities				14
Net increase (decrease) in cash and cash equivalents				(2,933)
Balance, July 1, 2010				29,293
Balance, June 30, 2011				26,360
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, 2011

	Willow Municipal Authority Enterprise Fund
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	(8,014)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:	
Depreciation expense	3,117
Increase (decrease) in:	
Customer meter deposits	1,453
<b>Net cash provided by (used in) operating activities</b>	<b><u>(3,444)</u></b>

See the accompanying notes to the basic financial statements

Town of Willow  
Notes to the Basic Financial Statements  
June 30, 2011

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, 2011

### 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, 2011

### 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, 2011

#### 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, 2011

### 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, 2011

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, 2011

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, 2011

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, 2011. 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, 2011

## Primary government

Insured deposits	188,716	188,716			
Uninsured deposits:					
Collateralized					
Uncollateralized					Total carrying value
					<u>188,686</u>
Total deposits	<u>188,716</u>	<u>188,716</u>	-	-	<u>188,686</u>
Petty cash					<u>-</u>
					<u>188,686</u>
Reconciliation to government-wide Statement of Net Assets					
					318
					68,739
					114,779
					<u>183,836</u>

## 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.



Town of Willow  
Notes to the Basic Financial Statements  
June 30, 2011

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 \$12,417.

C. Capital assets

Capital asset activity, resulting from modified cash basis transactions, for the fiscal year ended June 30, 2011, was as follows:

<b>Governmental activities:</b>				
	Balance			Balance
Description	July 1, 2010	Additions	Retirements	June 30, 2011
Buildings	122,375			122,375
Vehicles	55,000			55,000
Total governmental property and equipment	177,375	-	-	177,375
Less accumulated depreciation	64,621	12,661		77,282
Net governmental property and equipment	112,754	12,661	-	100,093
<b>Business-type activities:</b>				
Construction work in progress	17,037	67,149		84,185
Water system/improvements	52,348			52,348
Machinery/equipment	4,999			4,999
Total business-type property and equipment	74,384	67,149	-	141,532
Less accumulated depreciation	8,063	3,117		11,180
Net business-type property and equipment	66,321	64,031	-	130,352
Total government-wide property and equipment	179,075	51,370	-	230,445

During the twelve months ended June 30, 2011, 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.

Town of Willow  
Notes to the Basic Financial Statements  
June 30, 2011

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, 2011, the long-term liabilities, arising from cash transactions, payable from proprietary fund resources consisted of the following:

	Refundable deposits:			
	Refundable deposits reported as a liability within the Statement of Net Assets are composed of the following:			
	Utility deposits-refundable			12,417

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

Type of debt	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Amount due within one year
Business type activities:					
Refundable deposits	10,964	1,453		12,417	-
Total business type activities	10,964	1,453	-	12,417	-

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.

Note 5-Deposits with third party administrator.

Funds held by the Oklahoma Municipal Assurance Group consist of:

Escrow funds-Typically past refunds or interest earnings left on deposit with the administrator to be disbursed upon instruction by the governing body.

Rate stabilization reserve-Reserves developed under the premium modification guidelines to be applied against future premium increases.

Loss fund-That portion of premium to pay claims.

Town of Willow  
Notes to the Basic Financial Statements  
June 30, 2011

Note 5-Deposits with third party administrator (continued).

The Oklahoma Municipal Assurance Group Workers' Compensation Plan became effective October 1, 1984. The purpose of the plan is to provide workers' compensation coverage through the State Insurance Fund to participating municipalities in the State of Oklahoma. In that capacity, the plan is responsible for providing loss control services and certain fiscal activities including obtaining contract arrangements for the underwriting, excess insurance agreements, claims processing, and legal defense for any and all claims submitted to it during the plan year. A plan year normally begins on July 1 in any year and ends on June 30 of the following calendar year. The plan, or its designated agent, has a right to audit at all reasonable times such books and records of the participant as necessary to determine the monies owned for benefits provided to the municipality or its employees.

A municipality may apply and enter into agreement with the plan to participate in the coverages and services that the plan offers as outlined above. Upon acceptance into the plan, a participant has the responsibility to pay fees set by the plan and to pay those fees from funds appropriated for that purpose according to the established payment schedule. In addition, a participant in the plan is responsible for complying with all requirements of the Oklahoma Workers' Compensation Act. Participants have a right to the return of any loss funds set aside for claims, which have not been paid out as benefits.

The amount shown in the financial statements reflect the funds being held by the group for the Town of Willow. These funds represent both current and past plan year participation with the loss fund balances in respect to the Town of Willow's workers' compensation retention. CompSource Oklahoma provides coverage in excess of these respective retention levels so each participant's liability for claim losses is limited to these retention levels. Failure of CompSource Oklahoma to honor its obligation could result in losses to the plan. However, Oklahoma Municipal Assurance Group's evaluation of the financial condition of CompSource Oklahoma indicates that CompSource Oklahoma is presently financially sound and will be able to meet its contractual obligations.