

**TOWN OF VELMA, OKLAHOMA  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDING JUNE 30, 2023  
WITH INDEPENDENT AUDITOR'S REPORT**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Town of Velma, Oklahoma

### Opinions

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and aggregate remaining fund information of the Town of Velma, Oklahoma as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Town of Velma, Oklahoma's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Velma, Oklahoma as of June 30, 2023, and the respective changes in modified cash basis financial position, and where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1C.

### Basis for Opinions

We conducted our 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Town of Velma, Oklahoma and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Emphasis of Matter—Basis of Accounting

We draw attention to Note 1C of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1C, and for determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards* we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town of Velma, Oklahoma's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town of Velma, Oklahoma's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2023, on our consideration of the Town of Velma, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Town of Velma, Oklahoma's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Velma, Oklahoma's internal control over financial reporting and compliance.



Oklahoma City, Oklahoma  
September 25, 2023

**Town of Velma, Oklahoma**  
**Statement of Net Position - Modified Cash Basis**  
**June 30, 2023**

|                                                   | Governmental<br>Activities | Business-Type<br>Activities | Total                  |
|---------------------------------------------------|----------------------------|-----------------------------|------------------------|
| <b>Assets</b>                                     |                            |                             |                        |
| <b>Current Assets:</b>                            |                            |                             |                        |
| Cash in bank - unrestricted                       | 834,979.99                 | 239,677.73                  | 1,074,657.72           |
| Cash in bank - restricted                         | 378,211.71                 |                             | 378,211.71             |
| <b>Total current assets</b>                       | <b>1,213,191.70</b>        | <b>239,677.73</b>           | <b>1,452,869.43</b>    |
| <b>Noncurrent assets:</b>                         |                            |                             |                        |
| Net capital assets                                | 491,566.41                 |                             | 491,566.41             |
| <b>Total noncurrent assets</b>                    | <b>491,566.41</b>          |                             | <b>491,566.41</b>      |
| <b>Total assets</b>                               | <b>\$ 1,704,758.11</b>     | <b>\$ 239,677.73</b>        | <b>\$ 1,944,435.84</b> |
| <b>Liabilities</b>                                |                            |                             |                        |
| <b>Current liabilities</b>                        |                            |                             |                        |
| Current Portion of Loans and Capital Leases       | 10,218.56                  |                             | 10,218.56              |
| <b>Total current liabilities</b>                  | <b>10,218.56</b>           |                             | <b>10,218.56</b>       |
| <b>Noncurrent Liabilities</b>                     |                            |                             |                        |
| Loans and Capital Leases - Net of Current Portion | 2,828.39                   |                             | 2,828.39               |
| <b>Total Noncurrent Liabilities</b>               | <b>2,828.39</b>            |                             | <b>2,828.39</b>        |
| <b>Total Liabilities</b>                          | <b>13,046.95</b>           |                             | <b>13,046.95</b>       |
| <b>Net Assets</b>                                 |                            |                             |                        |
| Invested in capital assets, net of related debt   | 478,519.46                 |                             | 478,519.46             |
| Restricted                                        | 378,211.71                 |                             | 378,211.71             |
| Unrestricted                                      | 834,979.99                 | 239,677.73                  | 1,074,657.72           |
| <b>Total net assets</b>                           | <b>1,691,711.16</b>        | <b>239,677.73</b>           | <b>1,931,388.89</b>    |
| <b>Total liabilities and net assets</b>           | <b>\$ 1,704,758.11</b>     | <b>\$ 239,677.73</b>        | <b>\$ 1,944,435.84</b> |

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

**Town of Velma, Oklahoma**  
**Statement of Activities - Modified Cash Basis**  
**For the Year Ending June 30, 2023**

| Functions/Programs             | Expenses      | Program Revenues        |                             | Net (Expense) Revenue and<br>Changes in Net Assets<br>Primary Government |                               | Total           |
|--------------------------------|---------------|-------------------------|-----------------------------|--------------------------------------------------------------------------|-------------------------------|-----------------|
|                                |               | Charges for<br>Services | Grants and<br>Contributions | Governmental<br>Activities                                               | Business - Type<br>Activities |                 |
| Primary government             |               |                         |                             |                                                                          |                               |                 |
| Governmental activities        |               |                         |                             |                                                                          |                               |                 |
| General government             | 69,466.15     |                         |                             | (69,466.15)                                                              |                               | (69,466.15)     |
| Police                         | 83,762.77     | 4,077.41                |                             | (79,685.36)                                                              |                               | (79,685.36)     |
| Emergency                      | 157,747.60    | 54,091.48               |                             | (103,656.12)                                                             |                               | (103,656.12)    |
| Streets                        | 103,522.49    |                         |                             | (103,522.49)                                                             |                               | (103,522.49)    |
| Fire                           | 114,235.46    |                         |                             | (114,235.46)                                                             |                               | (114,235.46)    |
| Park                           | 2,806.25      |                         |                             | (2,806.25)                                                               |                               | (2,806.25)      |
| Total governmental activities  | 531,540.72    | 58,168.89               |                             | (473,371.83)                                                             |                               | (473,371.83)    |
| Business-type activities       |               |                         |                             |                                                                          |                               |                 |
| Garbage department             | 193,496.41    | 212,968.86              |                             |                                                                          | 19,472.45                     | 19,472.45       |
| Total business-type activities | 193,496.41    | 212,968.86              |                             |                                                                          | 19,472.45                     | 19,472.45       |
| Total primary government       | \$ 725,037.13 | \$ 271,137.75           |                             | \$ (473,371.83)                                                          | \$ 19,472.45                  | \$ (453,899.38) |

| General revenues:                  |                 |                 |
|------------------------------------|-----------------|-----------------|
| Sales and Use Taxes - Unrestricted | 570,005.97      | 570,005.97      |
| Sales and Use Taxes - Restricted   | 108,228.10      | 108,228.10      |
| Other Taxes                        | 33,426.88       | 33,426.88       |
| Other Income                       | 109,192.81      | 135,039.12      |
| Total general revenues             | 820,853.76      | 846,700.07      |
| Change in net assets               | 347,481.93      | 392,800.69      |
| Net assets - beginning             | 1,344,229.23    | 1,538,588.20    |
| Net assets - ending                | \$ 1,691,711.16 | \$ 1,931,388.89 |

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

**Town of Velma, Oklahoma**  
**Governmental Funds**  
**Balance Sheet - Modified Cash Basis**  
**June 30, 2023**

|                           | <b>General<br/>Fund</b> | <b>Fire<br/>Fund</b> | <b>Ambulance<br/>Fund</b> | <b>Non-Major<br/>Funds</b> | <b>Total<br/>Governmental<br/>Funds</b> |
|---------------------------|-------------------------|----------------------|---------------------------|----------------------------|-----------------------------------------|
| <b>Assets</b>             |                         |                      |                           |                            |                                         |
| Cash in bank              | 834,979.99              |                      |                           |                            | 834,979.99                              |
| Cash in bank - restricted | 137,999.19              | 207,621.34           | 11,886.86                 | 20,704.32                  | 378,211.71                              |
| Total assets              | \$ 972,979.18           | \$ 207,621.34        | \$ 11,886.86              | \$ 20,704.32               | \$ 1,213,191.70                         |
| <br><b>Fund Balances</b>  |                         |                      |                           |                            |                                         |
| Unassigned                | 834,979.99              |                      |                           |                            | 834,979.99                              |
| Restricted                | 137,999.19              | 207,621.34           | 11,886.86                 | 20,704.32                  | 378,211.71                              |
| Net assets                | \$ 972,979.18           | \$ 207,621.34        | \$ 11,886.86              | \$ 20,704.32               | \$ 1,213,191.70                         |

***Reconciliation of Total Governmental Fund Balance to  
Net Assets of Governmental Activities as of June 30, 2023***

|                                                                                                                                                                                                           |                 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| Total Governmental Fund Balances                                                                                                                                                                          | 1,213,191.70    |
| Amounts reported for governmental activities in the statement of net position are different because:                                                                                                      |                 |
| Capital assets used in government activities are not financial resources and therefore are not reported in the fund financial statements.<br>therefore are not reported in the fund financial statements. | 491,566.41      |
| Long-term liabilities, including capital leases, are not due and payable in the                                                                                                                           |                 |
| Net Assets of Governmental Activities                                                                                                                                                                     | \$ 1,704,758.11 |

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

**Town of Velma, Oklahoma**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ending June 30, 2023**

|                                               | General<br>Fund        | Fire<br>Fund         | Ambulance<br>Fund   | Non-Major<br>Funds  | Total<br>Governmental<br>Funds |
|-----------------------------------------------|------------------------|----------------------|---------------------|---------------------|--------------------------------|
| <b>Revenues</b>                               |                        |                      |                     |                     |                                |
| Sales and Use Taxes                           | 508,675.56             | 42,389.63            | 127,168.88          |                     | 678,234.07                     |
| Other Taxes                                   | 28,389.12              |                      |                     | 5,037.76            | 33,426.88                      |
| Charges for Services                          |                        |                      | 54,091.48           |                     | 54,091.48                      |
| Fines and Forfeitures                         | 4,077.41               |                      |                     |                     | 4,077.41                       |
| Other revenues                                | 99,193.56              |                      |                     |                     | 99,193.56                      |
| <b>Total revenues</b>                         | <b>640,335.65</b>      | <b>42,389.63</b>     | <b>181,260.36</b>   | <b>5,037.76</b>     | <b>869,023.40</b>              |
| <b>Expenditures</b>                           |                        |                      |                     |                     |                                |
| Salaries and Wages                            | 201,194.71             |                      | 117,928.96          |                     | 319,123.67                     |
| Maintenance and Operations                    | 149,357.09             | 111.00               |                     |                     | 149,468.09                     |
| <b>Total Expenditures</b>                     | <b>350,551.80</b>      | <b>111.00</b>        | <b>117,928.96</b>   |                     | <b>468,591.76</b>              |
| Excess revenues over (under) expenditures     | 289,783.85             | 42,278.63            | 63,331.40           | 5,037.76            | 400,431.64                     |
| <b>Other Financing Sources and Uses</b>       |                        |                      |                     |                     |                                |
| Transfers In (Out)                            | 67,511.71              | 857.45               | (63,331.40)         | (5,037.76)          |                                |
| <b>Total Other Financing Sources and Uses</b> | <b>67,511.71</b>       | <b>857.45</b>        | <b>(63,331.40)</b>  | <b>(5,037.76)</b>   |                                |
| <b>Net Changes in Fund Balances</b>           | <b>357,295.56</b>      | <b>43,136.08</b>     |                     |                     | <b>400,431.64</b>              |
| Fund balance at beginning of year             | 1,157,152.04           | 154,486.01           | 11,886.86           | 20,704.32           | 1,344,229.23                   |
| Fund balance at end of year                   | <u>\$ 1,514,447.60</u> | <u>\$ 197,622.09</u> | <u>\$ 11,886.86</u> | <u>\$ 20,704.32</u> | <u>\$ 1,744,660.87</u>         |

***Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities for the Year Ending June 30, 2023***

|                                                                                                                |                      |
|----------------------------------------------------------------------------------------------------------------|----------------------|
| Net Changes in Fund Balances                                                                                   | 400,431.64           |
| Depreciation is recorded in the government-wide financial statements but not in the fund financial statements. | <u>(62,948.96)</u>   |
| Change in Net Position per the Government Wide Financial Statements                                            | <u>\$ 337,482.68</u> |

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



**Town of Velma, Oklahoma**  
**Proprietary Funds**  
**Statement of Net Position - Modified Cash Basis**  
**June 30, 2023**

|                             | Velma<br>Public Works<br>Authority |
|-----------------------------|------------------------------------|
| Assets                      |                                    |
| Current assets:             |                                    |
| Cash in bank - unrestricted | 239,677.73                         |
| Total current assets        | \$ 239,677.73                      |
| <br>Net Position            |                                    |
| Unrestricted                | 239,677.73                         |
| Total Net Position          | \$ 239,677.73                      |

**Town of Velma, Oklahoma**  
**Proprietary Funds**  
**Statement of Revenues Over Expenditures and Changes in Net Position - Modified Cash Basis**  
**For the Year Ending June 30, 2023**

|                                 | <u>Velma<br/>Public Works<br/>Authority</u> |
|---------------------------------|---------------------------------------------|
| Operating Revenues:             |                                             |
| Sanitation                      | 238,815.17                                  |
| Total operating revenues        | <u>238,815.17</u>                           |
| Operating expenses              |                                             |
| Maintenance and Operations      | 193,496.41                                  |
| Total operating expenses        | <u>193,496.41</u>                           |
| Operating Income (Loss)         | 45,318.76                                   |
| Net assets at beginning of year | 194,358.97                                  |
| Net assets at end of year       | <u><u>\$ 239,677.73</u></u>                 |

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

**Town of Velma, Oklahoma**  
**Proprietary Funds**  
**Statement of Cash Flows - Modified Cash Basis**  
**For the Year Ending June 30, 2023**

|                                                                                                   | <b>Velma<br/>Public Works<br/>Authority</b> <hr style="border: 0.5px solid black;"/> |
|---------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|
| Cash flows from operating activities                                                              |                                                                                      |
| Cash received from customers                                                                      | 238,815.17                                                                           |
| Cash paid to suppliers                                                                            | <u>(193,496.41)</u>                                                                  |
| Net cash provided by operating activities                                                         | 45,318.76                                                                            |
| Cash flows from noncapital financing activities                                                   |                                                                                      |
| Net increase (decrease) in cash and cash equivalents                                              | 45,318.76                                                                            |
| Cash and cash equivalents at beginning of year                                                    | <u>194,358.97</u>                                                                    |
| Cash and cash equivalents at end of year                                                          | <u><u>\$ 239,677.73</u></u>                                                          |
|                                                                                                   |                                                                                      |
| Reconciliation of operating income (loss) to net cash provided<br>(used) by operating activities: |                                                                                      |
| Operating income (loss)                                                                           | <u>45,318.76</u>                                                                     |
| Net cash provided (used) by operating activities                                                  | <u><u>\$ 45,318.76</u></u>                                                           |

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

**Town of Velma, Oklahoma  
Notes to the Basic Financial Statements  
For the Year Ended June 30, 2023**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

As discussed further in Note 1.C, these financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) established by the Governmental Accounting Standards Board (GASB). These modified cash-basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the modified cash basis of accounting.

**1.A. FINANCIAL REPORTING ENTITY**

The Town of Velma, Oklahoma operates under the Statutory Town Board of Trustees form of government. The Town provides the following services: public safety, streets and highways, sanitation, public improvements, utilities and general administrative services.

The criteria used to determine which accounting entities, agencies, commissions, boards and authorities are part of the Town's operations include how the budget is adopted, whether debt is secured by general obligation of the Town, the Town's duty to cover any deficits that may occur, and supervision over the accounting functions. Any separate accounting entities would be considered component units. There are no agencies, organizations or activities meeting any of the above criteria that are excluded from the Town's reporting entity. As of June 30, 2023, the Town has one component unit, the Velma Public Works Authority.

**1.B. BASIS OF PRESENTATION**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole within the limitations of the modified cash basis of accounting. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities.

Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed, in whole or part, by fees charged to external parties for goods or services.

**FUND FINANCIAL STATEMENTS**

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, deferred outflows, liabilities, deferred inflows, net position or fund balance, revenues, and expenditures or expenses. The Town's funds are organized into two major categories: governmental and proprietary. The Town presently has no fiduciary funds. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

- a. Total assets, deferred outflows, liabilities, deferred inflows, revenues, or expenditures or 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.

- b. Total assets, deferred outflows, liabilities, deferred inflows, revenues, or expenditures or 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 subsequently:

**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 financial resources not accounted for and reported in another fund.

**Special Revenue Funds**

Special Revenue Funds are used to account for and report the proceeds of the specific revenue sources that are either restricted or committed to expenditures for specified purposes other than debt service or capital projects. The reporting entity includes the following special revenue funds, street and alley fund, fire fund, ambulance fund and cemetery care fund.

**Proprietary Funds**

**Enterprise Fund**

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

**Interfund Balances and Transfers**

**Interfund Balances**

As of and for the year ending June 30, 2023 the Town had no interfund balances.

**Transfers In and Out**

The Town will transfer funds within the Town’s fund structure in order to facilitate cash flow or for special purposes. The Town had the following transfers during the year ending June 30, 2023.

|                 |                           |
|-----------------|---------------------------|
|                 | <u>Transfers In (Out)</u> |
| General Fund    | 67,512                    |
| Fire Fund       | 857                       |
| Ambulanace Fund | (63,331)                  |
| Other Funds     | (5,038)                   |
|                 | <u>\$ -</u>               |

## **1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

Measurement focus is a term used to describe what transactions or events are recorded within the various financial statements. Basis of accounting refers to when and how transactions or events are recorded, regardless of the measurement focus applied.

### **MEASUREMENT FOCUS**

In the government-wide Statement of Net Position and 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 subsequently defined in item (b).

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:

- a. All governmental funds utilize a current financial resources measurement focus within the limitations of the modified cash basis of accounting. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an economic resources measurement focus within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), net financial position, and cash flows. All assets, deferred outflows, liabilities, and deferred inflows (whether current or noncurrent or financial or nonfinancial) associated with their activities are generally reported within the limitations of the modified cash basis of accounting.

### **BASIS OF ACCOUNTING**

The financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than GAAP as established by GASB. This basis of accounting involves modifications to the cash basis of accounting to report in the statements of net position or balance sheets cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such reported balances include investments, interfund receivables and payables, capital assets and related depreciation, and short-term and long-term liabilities arising from cash transactions or events.

This modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected and other accrued revenue and receivables) and certain liabilities and their related expenses or expenditures (such as accounts payable and expenses for goods or services received but not yet paid and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

If the Town utilized the basis of accounting recognized as generally accepted in the United States, the fund financial statements for governmental funds would use the modified accrual basis of accounting, and the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

## 1.D. FINANCIAL POSITION

### 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.

### RESTRICTED CASH

Restricted cash consists of the following:

|                     |                      |                   |
|---------------------|----------------------|-------------------|
| General Fund        | Emergency Funds      | 137,999           |
| Cemetery Care       | Cemetery             | 20,604            |
| Street & Alley Fund | Streets and Alleys   | 100               |
| Fire Fund           | Fire Operations      | 207,621           |
| Ambulance Fund      | Ambulance Operations | 11,887            |
|                     |                      | <u>\$ 378,211</u> |

### INVESTMENTS

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

### LONG-TERM DEBT

#### Government-Wide Statements

All long-term bonds, notes, and other debt arising from cash transactions or events to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements.

#### Fund-Financial Statements

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

### NET POSITION/FUND BALANCE CLASSIFICATIONS

#### Government-Wide Statements

Net Position is classified and displayed in three components:

1. *Net investment in capital assets.* 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 and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.

2. *Restricted.* Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction constraints placed on the use either by external groups, such as creditors, grantors, contributors, or laws and regulations of other governments, or law through constitutional provisions or enabling legislation.
3. *Unrestricted.* Net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

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

### Fund Financial Statements

#### Governmental Funds

The difference among assets, deferred outflows, liabilities, and deferred inflows of governmental funds is reported as fund balance and classified as nonspendable, restricted, committed, assigned, and unassigned based on the respective level of constraint. These constraints are defined as follows:

Nonspendable. Amounts that cannot be spent because they either are not in spendable form or are legally or contractually required to be maintained intact.

Restricted. Amounts constrained regarding use from restrictions externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or by restrictions imposed by law through constitutional provisions or enabling legislation.

Committed. Amounts constrained regarding use for specific purposes pursuant to requirements imposed by formal action of the Town's highest level of decision-making authority. (In the case of the Town of Velma, commitments are evidenced by adoption of an ordinance by the Town Council.)

Assigned. Amounts constrained by the Town's intent to be used for specific purposes but that are neither restricted nor committed. (In the case of the Town of Velma, assignments are evidenced either by resolution of the Town Council or by the Town Manager in written form as approved by vote of the Town Council pursuant to Town policy.)

Unassigned. The residual classification of the General Fund for spendable amounts that have not been restricted, committed, or assigned to specific purposes.

It is the Town's policy to first use restricted fund balances prior to the use of unrestricted fund balances when an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available. It is also Town policy to use committed fund balances before assigned fund balances and assigned fund balances before unassigned amounts when an expenditure is incurred for purposes for which amounts in those classifications are available to be used.

The Town has no formal minimum fund balance policies or any formal stabilization arrangements in place.

#### Proprietary Funds

The difference among assets, deferred outflows, liabilities, and deferred inflows of proprietary funds is reported as net position and classified in the same manner as the government-wide financial statements, as previously described.



## **1.E. REVENUES, EXPENDITURES, AND EXPENSES**

### **PROGRAM REVENUES**

In the Statement of Activities, modified cash-basis revenues that are derived directly from each activity or from parties outside the Town's taxpayers are reported as program revenues. The Town has the following program revenues in each activity: General Government, Police, Fire, Cemetery, Nutrition, Parks, Municipal Court, Community Center, Streets & Alley, and Public Works.

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

### **OPERATING REVENUE AND EXPENSES**

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

## **1.G. USE OF ESTIMATES**

The preparation of financial statements in conformity with the modified cash basis of accounting 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 government unit, the Town and its component units are subject to various federal, state, and local laws and contractual regulations. The following instances of noncompliance are considered material to the financial statements.

## **NOTE 3. DEPOSITS WITH FINANCIAL INSTITUTIONS**

The accounts of the Town are required by state law to be secured by collateral pledged by the financial institution and/or FDIC insurance. The Town of Velma is considered a separate entity from the Valliant Municipal Authority for FDIC deposit insurance.

In accordance with GASB No. 3, deposits are to be classified into the following three categories:

1. Insured or collateralized with securities held by the entity or by its agent or in the entity's name (Referred to as category 1)
2. Collateralized with securities held by pledging financial institution's trust department or agent in the entity's name. (Referred to as category 2)
3. Uncollateralized, including any bank balance that is collateralized with securities held by the pledging institution, or by its trust department or agent but not in the entity's name. (Referred to as category 3)

All of the Town of Velma's government and enterprise fund cash and investment accounts would be considered as category 1 up to its FDIC limits of \$250,000 for the governmental funds and \$250,000 for the Velma Public Works Authority. The remaining funds would be category 3.

### NOTE 3. CAPITAL LEASES

Capital lease activity for the year ending June 30, 2023, was as follows:

| Governmental Funds | Beginning        |             |                    | Ending           |  | Interest Paid | Due in One Year  |
|--------------------|------------------|-------------|--------------------|------------------|--|---------------|------------------|
|                    | Balance          | Additions   | Reductions         | Balance          |  |               |                  |
| Crawler Dozer      | 40,285           | -           | (30,067)           | 10,218           |  | 770           | 10,218           |
| Backhoe            | 2,829            | -           | (2,829)            | -                |  | 41            | -                |
| <b>Totals</b>      | <b>\$ 43,114</b> | <b>\$ -</b> | <b>\$ (32,896)</b> | <b>\$ 10,218</b> |  | <b>\$ 811</b> | <b>\$ 10,218</b> |

The crawler dozer capital lease purchased a bull dozer for \$143,371. The lease carries an interest rate of 2.9% with monthly payments of \$2,570. The asset was capitalized at \$143,371.

The backhoe capital lease purchased a backhoe for \$30,000. The lease carries an interest rate of 6.924% with monthly payments of \$717.33. The asset was capitalized at \$30,000. These obligations are considered to be direct financing obligations.

### NOTE 4. CAPITAL ASSETS AND DEPRECIATION

#### Governmental Funds

|                          | Beginning         |               |           | Ending            |                  |
|--------------------------|-------------------|---------------|-----------|-------------------|------------------|
|                          | Balance           | Increases     | Decreases | Balance           | Depreciation     |
| Ambulance                | 241,000           | -             | -         | 241,000           | 9,933            |
| Fire                     | 989,841           | 14,900        | -         | 1,004,741         | 35,917           |
| Park                     | 29,500            | -             | -         | 29,500            | -                |
| Police                   | 102,066           | 17,268        | -         | 119,334           | 11,331           |
| Streets                  | 251,833           | -             | -         | 251,833           | 5,768            |
| <b>Total Assets</b>      | <b>1,614,240</b>  | <b>32,168</b> | <b>-</b>  | <b>1,646,408</b>  | <b>\$ 62,949</b> |
| Accumulated Depreciation | (1,091,893)       | (62,949)      | -         | (1,154,842)       |                  |
| <b>Total Assets, Net</b> | <b>\$ 522,347</b> |               |           | <b>\$ 491,566</b> |                  |

As of June 30, 2023, the governmental funds had no capitalized assets that were not being depreciated or had not been depreciated. Depreciation is computed using the straight line method of depreciation over the estimated useful lives of the assets. Assets are recorded at cost or their estimated fair market value for those assets where cost was not available. Depreciation expense for the year was \$62,949 and was recorded to the departments as listed above.

### NOTE 5. SUBSEQUENT EVENTS

Subsequent events have been evaluated through September 25, 2023, which is the date the financial statements were issued.

### NOTE 6. RISK MANAGEMENT

The Town is exposed to various risks of losses related to torts; damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town manages this risk through the purchase of commercial insurance policies. Risk management activities are accounted for by fund, and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. There was no claims activity for the year just ended.

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### INDEPENDENT AUDITOR'S 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 Board of Trustee  
Town of Velma, Oklahoma

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Velma, Oklahoma, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Town of Velma, Oklahoma's basic financial statements and have issued our report thereon dated September 25, 2023.

#### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Town of Velma, Oklahoma's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Velma, Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Velma, Oklahoma's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. See findings 2023-1 in the accompanying schedule of current findings.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town of Velma, Oklahoma's financial statements are free from material misstatement, we 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 our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Town of Velma, Oklahoma's Response to Findings**

Town of Velma, Oklahoma's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Town of Velma, Oklahoma's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Gerald & Williams CPAs PC". The signature is written in a cursive, flowing style.

Oklahoma City, Oklahoma  
September 25, 2023

2023-1 Segregation of Duties – Repeat Finding

**Criteria:** The segregation of incompatible financial duties is important to adequately protect the Town's assets and ensure accurate financial reporting.

**Condition:** Presently the same individual receiving cash also posts payments and adjustments to subsidiary accounts receivable and accounts payable ledgers.

**Cause:** The Town's limited population and resources result in its inability to provide sufficient staffing to fully segregate incompatible duties.

**Effect:** Without proper segregation of duties, the risk increases that errors and fraud related to the collection and expenditure activities could occur and not be detected within a timely basis.

**Recommendation:** Efficient segregation of duties in a small town environment is often difficult. However, the governing body and Town management should be aware of this risk associated with the lack of duty segregation and attempt to exercise as much oversight control in these areas as possible and feasible. Such control could consist of independent bank account reconciliation reviews, revenue posting report reviews, payment posting report reviews and adjusting entry reviews.