

TOWN OF PAOLI, OKLAHOMA
ANNUAL FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

TOWN OF PAOLI, OKLAHOMA
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 YEAR ENDED JUNE 30, 2011

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Kimberlye R. Mayer, CPA, P.C.

735 West Doolin

Blackwell, OK 74631

(580) 363-1453
Fax (580) 363-0068

Independent Auditor's Report

The Board of Trustees
Town of Paoli, Oklahoma

We 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 Paoli, Oklahoma, as of and for the year ended June 30, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Paoli, Oklahoma's management. Our responsibility is to express opinions on these financial statements based on our audit.

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. Those standards require that we 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. We believe that our audit provides a reasonable basis for our opinions.

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

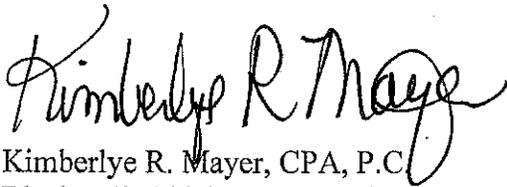
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position - modified cash basis of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Paoli, Oklahoma, as of June 30, 2011, and the respective changes in financial position - modified cash basis thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 26, 2012 on our consideration of the Town of Paoli 's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Town of Paoli has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board requires to supplement, although, not be a part of the basic financial statements. The omission of this information does not affect the opinion expressed on the financial statements as a whole.

The budgetary comparison schedule on pages 22 and 23 is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole on the basis of accounting described in Note 1.

A handwritten signature in black ink, reading "Kimberlye R. Mayer". The signature is written in a cursive, flowing style.

Kimberlye R. Mayer, CPA, P.C.
Blackwell, Oklahoma
January 26, 2012

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

The Board of Trustees
Town of Paoli, Oklahoma

We have audited the financial statements of the Town of Paoli, Oklahoma as of and for the year ended June 30, 2011, and have issued our report thereon dated January 26, 2012. 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. The financial statements were prepared on the modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The Town of Paoli, Oklahoma has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board requires to supplement, although, not be a part of the basic financial statements.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Paoli, Oklahoma's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Paoli, Oklahoma's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Paoli, Oklahoma's internal control over financial reporting.

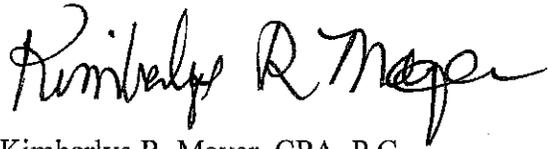
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weakness, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Paoli, Oklahoma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, and other matters, 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 were required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, board of trustees, others within the Town, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Kimberlye R. Mayer". The signature is written in a cursive, flowing style.

Kimberlye R. Mayer, CPA, P.C.
Blackwell, Oklahoma
January 26, 2012

GOVERNMENT-WIDE FINANCIAL STATEMENTS

TOWN OF PAOLI
STATEMENT OF NET ASSETS
MODIFIED CASH BASIS
JUNE 30, 2011

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and cash equivalents	\$ 42,983	\$ 123,796	\$ 166,779
Certificates of deposit	20,064		20,064
Restricted accounts		12,975	12,975
Due from other funds		64	64
Capital assets (Note 2):			
Land	5,000	4,134	9,134
Capital assets (net of accumulated depreciation)	317,072	566,268	883,340
Work in progress		25,590	25,590
Total Assets	<u>385,119</u>	<u>732,827</u>	<u>1,117,946</u>
Liabilities:			
Due to other funds	64		64
Payroll withholding	501	788	1,289
Customer meter deposits		12,575	12,575
Notes payable, current portion (Note 3)		22,967	22,967
Notes payable, long-term (Note 3)		35,139	35,139
Total Liabilities	<u>565</u>	<u>71,469</u>	<u>72,034</u>
Net Assets:			
Invested in capital assets, net of related debt	322,072	595,992	918,064
Restricted for:			
Cemetery care	29,506		29,506
Debt reserve		12,975	12,975
Unrestricted	32,976	52,391	85,367
Total Net Assets	<u>\$ 384,554</u>	<u>\$ 661,358</u>	<u>\$ 1,045,912</u>

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

TOWN OF PAOLI
STATEMENT OF ACTIVITIES
MODIFIED CASH BASIS
YEAR ENDED JUNE 30, 2011

Function/Program	Program Revenue			Net (Expense) Revenue & Changes in Net Assets		
	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:						
General Government	\$ 30,370	\$ 19,990	\$	\$ (10,380)	\$	\$ (10,380)
Public Safety	81,045	4,398		(43,056)		(43,056)
Cemetery	9,830	8,000		225		225
Streets	10,895			(10,895)		(10,895)
Culture and Recreation	2,856			(2,856)		(2,856)
Total government activities	<u>134,996</u>	<u>32,388</u>		<u>(66,962)</u>		<u>(66,962)</u>
Business-type activities:						
Water	86,698				4,827	4,827
Sewer	66,328				(13,835)	(13,835)
Sanitation	27,820				20,349	20,349
Total business-type activities	<u>180,846</u>				<u>11,341</u>	<u>11,341</u>
Total government	<u>\$ 315,842</u>	<u>\$ 32,388</u>	<u>\$</u>	<u>\$ (66,962)</u>	<u>\$ 11,341</u>	<u>\$ (55,621)</u>
General Revenues:						
Taxes:						
Sales taxes				43,323		43,323
Franchise taxes				14,954		14,954
Gas and vehicle taxes				5,845		5,845
Other taxes				8,130		8,130
Investment income				409	970	1,379
Miscellaneous				1,367	9,379	10,746
Total general revenues				<u>74,028</u>	<u>10,349</u>	<u>84,377</u>
Change in net assets before transfers				7,066	21,690	28,756
Transfers in (out)						
Change in net assets				7,066	21,690	28,756
Net assets - beginning of year				377,488	639,668	1,017,156
Net assets - end of year				<u>\$ 384,554</u>	<u>\$ 661,358</u>	<u>\$ 1,045,912</u>

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

FUND FINANCIAL STATEMENTS

TOWN OF PAOLI
BALANCE SHEET
MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2011

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets:			
Cash and cash equivalents	\$ 40,518	\$ 2,465	\$ 42,983
Certificates of deposit		20,064	20,064
Total Assets	40,518	22,529	63,047
 Liabilities and Fund Balance:			
Liabilities:			
Payroll withholding	501		501
Due to other funds	64		64
Total Liabilities	565		565
 Fund balances:			
Nonspendable			
Restricted			
Committed			
Assigned			
Unassigned	39,953	22,529	62,482
Total Fund Balances	\$ 39,953	\$ 22,529	\$ 62,482

RECONCILIATION TO STATEMENT OF NET ASSETS:

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities of \$497,148, net of accumulated depreciation of \$176,064, are not financial resources and, therefore, are not reported in the funds.

Net assets of governmental activities

322,072

\$ 384,554

TOWN OF PAOLI
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2011

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 72,252	\$	\$ 72,252
Charges for services	2,063	238	2,301
Fines	33,345		33,345
Investment income	384	25	409
Grants and donations	32,388		32,388
Miscellaneous	1,367		1,367
Total Revenues	141,799	263	142,062
Expenditures:			
Current:			
General Government	27,575		27,575
Police Department	74,983		74,983
Fire Department	12,306		12,306
Streets	9,387		9,387
Cultural and Recreation	1,903		1,903
Cemetery	9,830		9,830
Total Expenditures	135,984		135,984
Excess (deficiencies) of revenues over expenditures	5,815	263	6,078
Other Financing Sources (Uses):			
Transfers in (out)			
Net changes in fund balances	5,815	263	6,078
Fund balances, beginning of year	34,138	22,266	56,404
Fund balances, end of year	\$ 39,953	\$ 22,529	62,482
RECONCILIATION TO THE STATEMENT OF ACTIVITIES:			
Net changes in fund balances - total governmental funds			\$ 6,078
Amounts reported for governmental activities in the Statement of Activities are different because:			
Capital asset purchases capitalized			25,577
Depreciation expense			(24,589)
			988
Change in Net Assets of Governmental Activities			\$ 7,066

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

TOWN OF PAOLI
STATEMENT OF NET ASSETS
MODIFIED CASH BASIS
PROPRIETARY FUND
JUNE 30, 2011

	Public Works Authority Enterprise Fund
Assets:	
Current Assets:	
Cash and cash equivalents	\$ 123,796
Restricted accounts	12,975
Due from other funds	64
Total Current Assets	136,835
Noncurrent Assets:	
Land	4,134
Other capital assets, net of accumulated depreciation (Note 2)	566,268
Work in progress	25,590
Total Noncurrent Assets	595,992
Total Assets	732,827
Liabilities:	
Current Liabilities:	
Payroll withholdings	788
Notes payable, current portion (Note 3)	22,967
Total Current Liabilities	23,755
Noncurrent liabilities:	
Customer meter deposits	12,575
Notes payable, non-current portion (Note 3)	35,139
Total Noncurrent Liabilities	47,714
Total Liabilities	71,469
Net Assets:	
Invested in capital assets, net of related debt	595,992
Restricted for debt service	12,975
Unrestricted	52,391
Total Net Assets	\$ 661,358

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

TOWN OF PAOLI
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS - MODIFIED CASH BASIS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2011

	Public Works Authority Enterprise Fund
Operating Revenues:	
Charges for services:	
Water	\$ 91,525
Sewer	52,493
Sanitation	48,169
Grants	
Other income	9,379
Total Operating Revenues	201,566
 Operating Expenses:	
Water Department	67,262
Sewer Department	55,395
Sanitation Department	17,696
Depreciation	36,998
Total Operating Costs	177,351
 Operating income (loss)	 24,215
 Non-Operating Revenues (Expenses):	
Interest income	970
Interest expense	(2,745)
Trustee fees	(750)
Total Non-Operating Revenues (Expenses)	(2,525)
 Changes in Net Assets	 21,690
 Transfers	
 Net Assets, beginning of year	 639,668
 Net Assets, end of year	 \$ 661,358

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

TOWN OF PAOLI
STATEMENT OF CASH FLOWS
MODIFIED CASH BASIS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2011

Cash Flows From Operating Activities:	
Cash received from customers	\$ 201,566
Cash payments to suppliers for goods and services	<u>(140,170)</u>
Net cash provided (used) by Operating Activities	61,396
Cash Flows From Non-Capital Financing Activities:	
Cash Flows From Capital And Related Financing Activities:	
Transfers in (out)	
Acquisition and construction of capital assets	(18,820)
Trustee fees	(750)
Principle payments	(18,903)
Interest payments	<u>(2,745)</u>
Net cash provided (used) by Financing Activities	(41,218)
Cash Flows From Investing Activities:	
Interest on cash and investments	970
(Increase) decrease in restricted accounts	<u>(62)</u>
Net cash provided (used) by Investing Activities	<u>908</u>
Net increase (decrease) in cash and cash equivalents	21,086
Beginning cash and cash equivalents	<u>102,710</u>
Ending cash and cash equivalents	<u><u>\$ 123,796</u></u>
Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:	
Income (Loss) from operations	24,215
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:	
Depreciation	36,998
Change in assets and liabilities:	
Payroll liabilities	(165)
Customer deposits	348
Net cash provided (used) by operating activities	<u><u>\$ 61,396</u></u>

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

TOWN OF PAOLI, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Financial Reporting Entity

The Town of Paoli, Oklahoma (Town) operates under the Town Board of Trustees form of government and provides the following services as authorized by its charter: public safety, streets, public improvements, recreation, planning and zoning, and general administration. The Town's financial reporting entity is composed of the following:

Primary Government: Town of Paoli, Oklahoma
Blended Component Unit: Town of Paoli, Oklahoma Public Works Authority

Blended Component Unit

The Paoli Public Works Authority (PWA), an entity legally separate from the Town but having the Town as its beneficiary, is governed by the same board of trustees as governs the Town. For financial reporting purposes, the PWA is reported as if it were part of the Town's operations because its primary purpose is to finance and provide water, sewer, and trash services to the citizens of the Town.

Basis of Presentation

Government-Wide Financial Statements:

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

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into 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, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds for that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprises fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

TOWN OF PAOLI, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Governmental Funds:

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

Special Revenue Funds 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, all of which are reported as non-major funds:

Cemetery Care Fund – used to account for 12 ½% of revenue from lot sales. These funds are restricted for purchasing cemetery land or making cemetery capital improvements.

Proprietary Funds

The 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 Public Works Authority Fund. This fund is used to account for the activities in providing water, sewer, and sanitation services to the public.

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities and the fund financial statements, governmental and business-like 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 and propriety fund 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 for 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.

TOWN OF PAOLI, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Budget Policy and Practice

An annual budget is submitted to the Town Trustees for review, and public hearings are held to address the budget. Once the budget is approved, the Town Trustees may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

Revenues are budgeted by source, and expenditures are budgeted by department and class as follows: personal services, materials and supplies, other services and charges, and capital outlay. This constitutes the legal level of control. Expenditures may not exceed appropriations at this level. Budget revisions are subject to final review by the Town Trustees.

The budget for the operating funds is prepared on the cash basis. Revenues are budgeted in the year receipt is expected; and expenditures are budgeted in the year that the applicable purchase orders is expected to be paid. The actual financial statements are reported on the modified cash basis.

Budget and Budgetary Accounting

The Town adopts annual budgets for the general and proprietary funds.

Cash and Cash Equivalents

For the purpose of financial reporting, cash and cash equivalents includes all demand and savings accounts (excluding restricted accounts) and certificates of deposit with a maturity of three months or less.

Restricted Accounts

The restricted accounts are monies that are held in reserve for debt service on the notes.

NOTE 2 – PROPERTY AND EQUIPMENT:

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, plant, and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

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.

TOWN OF PAOLI
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

NOTE 2 – PROPERTY AND EQUIPMENT (continued):

Depreciation of all exhaustible capital assets arising from cash transactions is recorded as an expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation.

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

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

	Balance at June 30, 2010	Additions	Deductions	Balance at June 30, 2011
Governmental activities:				
Fire Department equipment	\$ 199,572	\$	\$	\$ 199,572
Police Department equipment	18,898	25,577		44,475
Parks and Recreation	49,441			49,441
Land	5,000			5,000
Buildings	129,212			129,212
General equipment	9,046			9,046
Street improvements	85,979			85,979
Totals	<u>497,148</u>	<u>25,577</u>		<u>522,725</u>
Less accumulated depreciation:				
Equipment	124,298	20,243		144,541
Buildings	42,971	2,838		45,809
Street improvements	8,795	1,508		10,303
Totals	<u>176,064</u>	<u>24,589</u>		<u>200,653</u>
Capital assets, net	<u>\$ 321,084</u>	<u>\$ 988</u>	<u>\$</u>	<u>\$ 322,072</u>
Business-type activities:				
Land	\$ 4,134	\$	\$	\$ 4,134
Buildings	21,674			21,674
Utility equipment	169,768	18,870		188,638
Water & sewer system	886,868			886,868
Totals	<u>1,082,444</u>	<u>18,870</u>		<u>1,101,314</u>
Less accumulated depreciation:				
Buildings	5,418	2,167		7,585
Utility equipment	113,201	12,641		125,842
Water & sewer system	375,295	22,190		397,485
Totals	<u>493,914</u>	<u>36,998</u>		<u>530,912</u>
Capital assets, net	<u>\$ 588,530</u>	<u>\$ (18,128)</u>	<u>\$</u>	<u>\$ 570,402</u>

TOWN OF PAOLI
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

NOTE 3 – LONG TERM DEBT:

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

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

There is no long-term debt at June 30, 2011 as the result of governmental activities. The long-term debt arising from cash transactions, payable from proprietary fund resources consisted of the following:

Refundable deposits reported as a liability within the Statement of Net Assets are utility deposits. \$ 12,575

Notes payable for water and sewer improvements:

Promissory note with a local bank. This note carries an interest rate of 6% and monthly payments of \$970. This note matures on August 5, 2014. \$ 32,789

Promissory note with OWRB. This note carries a variable interest rate currently at 2.425%. Payments are made quarterly through a trustee bank. This note matures on December 15, 2013. \$ 25,317

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

	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011	Amounts Due Within One Year
Loans	\$ 77,009	\$	\$ (18,903)	\$ 58,106	\$ 22,967
Refundable deposits	12,227	348		12,575	
Totals	<u>\$ 89,236</u>	<u>\$ 348</u>	<u>\$ (18,903)</u>	<u>\$ 70,681</u>	

The annual debt requirements to maturity for the notes payable as of June 30, 2011 are as follows:

Year Ended	Principle	Interest
6/30/12	19,879	1,358
6/30/13	20,735	502
6/30/14	16,394	264
6/30/15	1,098	252
Totals	<u>\$ 58,106</u>	<u>\$ 2,376</u>

TOWN OF PAOLI
 NOTES TO FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2011

NOTE 4 – CASH AND DEPOSITS:

The State of Oklahoma allows municipalities to invest in direct obligations of the United States Government, its agencies or instrumentalities; collateralized or insured certificates of deposit; insured savings accounts of savings certificates; or county, municipal or school district direct debt.

Cash and deposits are categorized for level of risk as follows:

- Category 1 – Insured or collateralized with securities held by the City or by its agent in the Town’s name.
- Category 2 – Collateralized with securities held by the pledging financial institution’s trust department or agent in the City’s name.
- Category 3 – Uncollateralized

Cash and deposits, categorized by level of risk, at June 30, 2011 are:

	Bank Balance	Category			Carrying Amount
		1	2	3	
Bank accounts	\$ 161,815	\$ 166,779	\$	\$	\$ 166,779
Certificates of deposit	20,064	20,064			40,128
Totals	<u>181,879</u>	<u>186,843</u>			<u>186,843</u>

NOTE 5 – EQUITY CLASSIFICATION:

Equity in government-wide financial statements is classified as net assets and displayed in three components:

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.

Restricted net assets: Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted net assets: All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

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

TOWN OF PAOLI
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

NOTE 6-- PENSION PLANS:

The Town's volunteer firemen participate in the Oklahoma State Firefighter's Pension and Retirement System. Vesting occurs after 10 years of service and payments begin at age 50, or after 20 years of service, whichever is later. The total contribution for the year ended June 30, 2011 was \$960 and covered 16 volunteers.

NOTE 7 -- RISK MANAGEMENT:

The Town is exposed to various risks of losses related to torts; thefts of, 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 were no claims activity for the year just ended.

NOTE 8 -- ESTIMATES:

The preparation of financial statements in conformity with the modified cash basis of accounting used by the Town requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

NOTE 9 -- EVALUATION OF SUBSEQUENT EVENTS:

The Town has evaluated subsequent events through January 26, 2012, the date which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF PAOLI
 BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
 GENERAL FUND
 YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning budgetary fund balance	\$ 34,138	\$ 34,138	\$ 34,138	\$
Resources (Inflows):				
Sales tax	40,000	40,000	43,323	3,323
Use tax	2,500	2,500	3,206	706
Franchise taxes	14,500	14,500	14,954	454
Alcoholic beverage tax	4,000	4,000	4,328	328
Tobacco tax	600	600	596	(4)
Motor vehicle and gas taxes	5,800	5,800	5,845	45
Fines	30,000	30,000	33,345	3,345
Other revenues	12,500	12,500	3,430	(9,070)
Grants/donations		24,300	32,388	8,088
Interest	200	200	384	184
Total Resources	<u>110,100</u>	<u>134,400</u>	<u>141,799</u>	<u>7,399</u>
Charges (Outflows):				
General Government:				
Materials and supplies	3,000	1,500	1,296	204
Other services and charges	10,000	15,250	15,166	84
Total General Government	<u>13,000</u>	<u>16,750</u>	<u>16,462</u>	<u>288</u>
Parks:				
Materials and supplies	300	800	690	110
Other services and charges	1,000	1,500	1,213	287
Total Parks & Recreation	<u>1,300</u>	<u>2,300</u>	<u>1,903</u>	<u>397</u>
Fire:				
Materials and supplies	3,000	5,500	5,371	129
Other services and charges	5,000	8,025	6,935	1,090
Total Fire	<u>8,000</u>	<u>13,525</u>	<u>12,306</u>	<u>1,219</u>
Police:				
Personnel services	35,700	29,500	28,989	511
Materials and supplies	5,000	7,000	6,959	41
Other services and charges		10,000	9,260	740
Capital outlay	10,000	25,600	25,577	23
Total Police	<u>50,700</u>	<u>72,100</u>	<u>70,785</u>	<u>1,315</u>
Street and Alley:				
Materials and supplies	1,000	500	46	454
Other services and charges	8,400	9,600	9,341	259
Total Street and Alley	<u>9,400</u>	<u>10,100</u>	<u>9,387</u>	<u>713</u>

TOWN OF PAOLI
 BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
 GENERAL FUND (Continued)
 YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Municipal Court:	\$	\$	\$	\$
Personnel services	1,500	1,650	1,615	35
Other services and charges	2,400	2,600	2,583	17
Total Municipal Court	<u>3,900</u>	<u>4,250</u>	<u>4,198</u>	<u>52</u>
Animal Control:				
Personnel services	1,500	500	490	10
Materials and supplies	200	200	30	170
Other services and charges	100	500	348	152
Total Animal Control	<u>1,800</u>	<u>1,200</u>	<u>868</u>	<u>332</u>
Town Clerk/Treasurer:				
Personnel services	8,000	8,000	7,870	130
Town Attorney:				
Other Services and Charges	2,000	500	314	186
Maintenance:				
Materials and supplies	1,000	1,025	175	850
Other services and charges	1,000	2,000	1,886	114
Total Maintenance	<u>2,000</u>	<u>3,025</u>	<u>2,061</u>	<u>964</u>
Cemetery:				
Materials and supplies	1,000	2,250	2,095	155
Other services and charges	9,000	7,800	7,735	65
Total Cemetery	<u>10,000</u>	<u>10,050</u>	<u>9,830</u>	<u>220</u>
Total Charges	<u>110,100</u>	<u>141,800</u>	<u>135,984</u>	<u>5,816</u>
Other Financing Sources:				
Transfer from other funds				
Transfer to other funds				
Total Other Financing Sources				
Ending budgetary fund balance	<u>\$ 34,138</u>	<u>\$ 26,738</u>	<u>\$ 39,953</u>	<u>\$ 13,215</u>

TOWN OF PAOLI, OKLAHOMA
NOTES TO BUDGETARY COMPARISON SCHEDULE
JUNE 30, 2011

Budget Law

The Town prepares its annual operating budget under the provisions of the Municipal Budget Act. In accordance with these provisions the following process is used to adopt the annual budget:

1. At least 30 days prior to July 1, a proposed operating budget is submitted to the Town Council.
2. A public hearing is held no later than 15 days prior to July 1 for citizen comments.
3. Subsequent to the public hearings but no later than 7 days prior to July 1, the budget is adopted by resolution of the Town Council.
4. The adopted budget is filed with the Office of State Auditor and Inspector.

The level of control at which expenditures may not legally exceed appropriations is the object category level by department within a fund. The Budget Act recognizes the following object categories as minimum legal level of control by department within a fund:

- Personal Service
- Materials and Supplies
- Other Services and Charges
- Capital Outlay
- Debt Service
- Fund Transfers

All transfers of appropriations between departments and supplemental appropriations require Town Council approval. The Mayor may transfer appropriations between object categories within a department without Town Council approval. Supplemental appropriations must also be filed with the Office of State Auditor and Inspector.

Basis of Accounting

The budget is prepared on the cash basis of accounting as applied to the governmental funds in the basic financial statements. Revenues and expenditures are reported when they result from cash transactions. The Town does not budget for depreciation.