

TOWN OF PAOLI, OKLAHOMA
ANNUAL FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

TOWN OF PAOLI, OKLAHOMA
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2012

	Page
INTRODUCTORY SECTION:	
Table of Contents	i
FINANCIAL SECTION:	
Independent Auditor's Report	1-2
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	3-4
Government-Wide Financial Statements:	5
Statement of Net Assets - Modified Cash Basis	6
Statement of Activities - Modified Cash Basis	7
Fund Financial Statements:	8
Balance Sheet - Modified Cash Basis - Governmental Funds	9
Statement of Revenues, Expenditures and Changes in Fund Balances - Modified Cash Basis - Governmental Funds	10
Statement of Net Assets - Modified Cash Basis - Proprietary Fund	11
Statement of Revenues, Expenses and Changes in Net Assets - Modified Cash Basis - Proprietary Fund	12
Statement of Cash Flows - Modified Cash Basis - Proprietary Fund	13
Notes to Financial Statements	14-20
Supplementary Information:	21
Budgetary Comparison Schedule - Modified Cash Basis - General Fund	22-23
Notes to Budgetary Comparison Schedule	24

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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, 2012, 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.

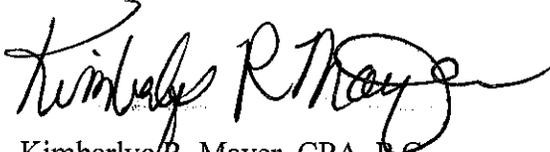
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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, 2012, 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 February 11, 2013 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 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.

A handwritten signature in black ink, appearing to read "Kimberley R. Mayer". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

Kimberlye R. Mayer, CPA, P.C.

Blackwell, Oklahoma

February 11, 2013

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, 2012, and have issued our report thereon dated February 11, 2013. 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.

Internal Control Over Financial Reporting

Management of the Town of Paoli is responsible for establishing and maintaining effective 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
February 11, 2013

GOVERNMENT-WIDE FINANCIAL STATEMENTS

TOWN OF PAOLI
STATEMENT OF NET ASSETS
MODIFIED CASH BASIS
JUNE 30, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and cash equivalents	\$ 51,099	\$ 136,860	\$ 187,959
Certificates of deposit	20,190		20,190
Restricted accounts		13,029	13,029
Loans receivable	1,477		1,477
Due from other funds		64	64
Capital assets (Note 2):			
Land	5,000	4,134	9,134
Capital assets (net of accumulated depreciation)	293,858	546,429	840,287
Work in progress		103,961	103,961
Total Assets	<u>371,624</u>	<u>804,477</u>	<u>1,176,101</u>
Liabilities:			
Due to other funds	64		64
Payroll withholding	1,413	868	2,281
Customer meter deposits		12,833	12,833
Notes payable, current portion (Note 3)		21,010	21,010
Notes payable, long-term (Note 3)		16,817	16,817
Total Liabilities	<u>1,477</u>	<u>51,528</u>	<u>53,005</u>
Net Assets:			
Invested in capital assets, net of related debt	298,858	650,390	949,248
Restricted for:			
Cemetery care	36,044		36,044
Debt reserve		13,029	13,029
Unrestricted	35,245	89,530	124,775
Total Net Assets	<u>\$ 370,147</u>	<u>\$ 752,949</u>	<u>\$ 1,123,096</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, 2012

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	\$ 26,001	\$ 5,485	\$	\$ (20,516)	\$	\$ (20,516)
Public Safety	106,152	4,413		(55,229)		(55,229)
Cemetery	9,092			(5,527)		(5,527)
Streets	13,575			(13,575)		(13,575)
Culture and Recreation	1,898			(1,898)		(1,898)
Total government activities	<u>156,718</u>	<u>9,898</u>		<u>(96,745)</u>		<u>(96,745)</u>
Business-type activities:						
Water	82,517		78,371		84,085	84,085
Sewer	60,838				(7,458)	(7,458)
Sanitation	43,787				3,620	3,620
Total business-type activities	<u>187,142</u>		<u>78,371</u>		<u>80,247</u>	<u>80,247</u>
Total government	<u>\$ 343,860</u>	<u>\$ 9,898</u>	<u>\$ 78,371</u>	<u>\$ (96,745)</u>	<u>\$ 80,247</u>	<u>\$ (16,498)</u>
General Revenues:						
Taxes:						
Sales taxes				42,788		42,788
Franchise taxes				14,693		14,693
Gas and vehicle taxes				5,339		5,339
Other taxes				19,660		19,660
Investment income				387	765	1,152
Miscellaneous				1,045	9,005	10,050
Total general revenues				<u>83,912</u>	<u>9,770</u>	<u>93,682</u>
Change in net assets before transfers						
				(12,833)	90,017	77,184
Transfers in (out)						
Change in net assets				(1,574)	1,574	77,184
Net assets - beginning of year				(14,407)	91,591	1,045,912
Net assets - end of year				<u>370,147</u>	<u>752,949</u>	<u>\$ 1,123,096</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, 2012

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets:			
Cash and cash equivalents	\$ 48,107	\$ 2,992	\$ 51,099
Certificates of deposit		20,190	20,190
Loans receivable	1,477		1,477
Total Assets	49,584	23,182	72,766
Liabilities and Fund Balance:			
Liabilities:			
Payroll withholding	1,413		1,413
Due to other funds	64		64
Total Liabilities	1,477		1,477
Fund balances:			
Nonspendable			
Restricted		23,182	23,182
Committed			
Assigned			
Unassigned	48,107		48,107
Total Fund Balances	\$ 48,107	\$ 23,182	\$ 71,289

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 \$523,646, net of accumulated depreciation of \$224,788, are not financial resources and, therefore, are not reported in the funds.

	298,858
Net assets of governmental activities	\$ 370,147

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

TOWN OF PAOLI
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 82,480	\$	\$ 82,480
Charges for services	3,052	513	3,565
Fines	46,510		46,510
Investment income	247	140	387
Grants and donations	9,898		9,898
Miscellaneous	1,045		1,045
Total Revenues	143,232	653	143,885
Expenditures:			
Current:			
General Government	23,895		23,895
Police Department	62,733		62,733
Fire Department	23,821		23,821
Streets	12,067		12,067
Cultural and Recreation	1,898		1,898
Cemetery	9,090		9,090
Total Expenditures	133,504		133,504
Excess (deficiencies) of revenues over expenditures	9,728	653	10,381
Other Financing Sources (Uses):			
Transfers in (out)	(1,574)		(1,574)
Net changes in fund balances	8,154	653	8,807
Fund balances, beginning of year	39,953	22,529	62,482
Fund balances, end of year	\$ 48,107	\$ 23,182	71,289

RECONCILIATION TO THE STATEMENT OF ACTIVITIES:

Net changes in fund balances - total governmental funds	\$ 10,381
Amounts reported for governmental activities in the Statement of Activities are different because:	
Capital asset purchases capitalized	921
Depreciation expense	(24,135)
	(23,214)
Change in Net Assets of Governmental Activities	\$ (12,833)

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, 2012

	Public Works Authority Enterprise Fund
Assets:	
Current Assets:	
Cash and cash equivalents	\$ 136,860
Restricted accounts	13,029
Due from other funds	64
Total Current Assets	149,953
Noncurrent Assets:	
Land	4,134
Other capital assets, net of accumulated depreciation (Note 2)	546,429
Work in progress	103,961
Total Noncurrent Assets	654,524
Total Assets	804,477
Liabilities:	
Current Liabilities:	
Payroll withholdings	868
Notes payable, current portion (Note 3)	21,010
Total Current Liabilities	21,878
Noncurrent liabilities:	
Customer meter deposits	12,833
Notes payable, non-current portion (Note 3)	16,817
Total Noncurrent Liabilities	29,650
Total Liabilities	51,528
Net Assets:	
Invested in capital assets, net of related debt	650,390
Restricted for debt service	13,029
Unrestricted	89,530
Total Net Assets	\$ 752,949

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, 2012

	Public Works Authority Enterprise Fund
Operating Revenues:	
Charges for services:	
Water	\$ 88,231
Sewer	53,380
Sanitation	47,407
Grants	78,371
Other income	9,005
Total Operating Revenues	276,394
Operating Expenses:	
Water Department	62,304
Sewer Department	51,266
Sanitation Department	33,160
Depreciation	37,671
Total Operating Costs	184,401
Operating income (loss)	91,993
Non-Operating Revenues (Expenses):	
Interest income	765
Interest expense	(1,991)
Trustee fees	(750)
Total Non-Operating Revenues (Expenses)	(1,976)
Changes in Net Assets	90,017
Transfers	1,574
Net Assets, beginning of year	661,358
Net Assets, end of year	\$ 752,949

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, 2012

Cash Flows From Operating Activities:	
Cash received from customers	\$ 198,023
Other operating cash receipts	78,371
Cash payments to suppliers for goods and services	(57,187)
Cash payments to employees	(89,205)
Net cash provided (used) by Operating Activities	130,002
Cash Flows From Non-Capital Financing Activities:	
Cash Flows From Capital And Related Financing Activities:	
Transfers in (out)	
Acquisition and construction of capital assets	(96,203)
Trustee fees	(750)
Principle payments	(20,279)
Interest payments	(1,991)
Net cash provided (used) by Financing Activities	(119,223)
Cash Flows From Investing Activities:	
Interest on cash and investments	765
Transfer in	1,574
(Increase) decrease in restricted accounts	(54)
Net cash provided (used) by Investing Activities	2,285
Net increase (decrease) in cash and cash equivalents	13,064
Beginning cash and cash equivalents	123,796
Ending cash and cash equivalents	\$ 136,860

Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:	
Income (Loss) from operations	91,993
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:	
Depreciation	37,671
Change in assets and liabilities:	
Payroll liabilities	80
Customer deposits	258
Net cash provided (used) by operating activities	\$ 130,002

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, 2012

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, 2012

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, 2012

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, 2012

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, 2012 was as follows:

	Balance at June 30, 2011	Additions	Deductions	Balance at June 30, 2012
Governmental activities:				
Fire Department equipment	\$ 199,572	\$	\$	\$ 199,572
Police Department equipment	44,475			44,475
Parks and Recreation	49,441			49,441
Land	5,000			5,000
Buildings	129,212			129,212
General equipment	9,046	921		9,967
Street improvements	85,979			85,979
Totals	<u>522,725</u>	<u>921</u>		<u>523,646</u>
Less accumulated depreciation:				
Equipment	144,541	20,047		164,588
Buildings	45,809	2,580		48,389
Street improvements	10,303	1,508		11,811
Totals	<u>200,653</u>	<u>24,135</u>		<u>224,788</u>
Capital assets, net	<u>\$ 322,072</u>	<u>\$ (23,214)</u>	<u>\$</u>	<u>\$ 298,858</u>
Business-type activities:				
Land	\$ 4,134	\$	\$	\$ 4,134
Buildings	21,674			21,674
Utility equipment	188,638	17,832		206,470
Water & sewer system	886,868			886,868
Totals	<u>1,101,314</u>	<u>17,832</u>		<u>1,119,146</u>
Less accumulated depreciation:				
Buildings	7,585	2,167		9,752
Utility equipment	125,842	12,992		138,834
Water & sewer system	397,485	22,512		419,997
Totals	<u>530,912</u>	<u>37,671</u>		<u>568,583</u>
Capital assets, net	<u>\$ 570,402</u>	<u>\$ (19,839)</u>	<u>\$</u>	<u>\$ 550,563</u>

TOWN OF PAOLI
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

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, 2012 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.	\$ 12,833
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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.	\$ 22,844
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Promissory note with OWRB. This note carries a variable interest rate currently at 1.23%. Payments are made quarterly through a trustee bank. This note matures on December 15, 2013.	\$ 14,983
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The following is a summary of changes in long-term debt for the year ended June 30, 2012:

	<u>Balance</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2012</u>	<u>Amounts Due</u> <u>Within One Year</u>
Loans	\$ 58,106	\$	\$ (20,279)	\$ 37,827	\$ 21,010
Refundable deposits	12,575		258	12,833	
Totals	<u>\$ 70,681</u>	<u>\$</u>	<u>\$ (20,021)</u>	<u>\$ 50,660</u>	

The annual debt requirements to maturity for the notes payable as of June 30, 2012 are as follows:

<u>Year Ended</u>	<u>Principle</u>	<u>Interest</u>
6/30/13	\$ 21,010	\$ 502
6/30/14	15,719	264
6/30/15	1,098	252
Totals	<u>\$ 37,827</u>	<u>\$ 1,018</u>

TOWN OF PAOLI
 NOTES TO FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2012

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, 2012 are:

	Bank Balance	Category			Carrying Amount
		1	2	3	
Bank accounts	\$ 188,048	\$ 188,048	\$	\$	\$ 187,959
Certificates of deposit	20,190	20,190			20,190
Totals	<u>208,238</u>	<u>208,238</u>			<u>208,149</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, 2012

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, 2012 was \$1,080 and covered 18 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 February 11, 2013, the date which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

TOWN OF PAOLI
 BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
 GENERAL FUND
 YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning budgetary fund balance	\$ 39,953	\$ 39,953	\$ 39,953	\$
Resources (Inflows):				
Sales tax	46,000	46,000	42,788	(3,212)
Use tax	6,800	6,800	14,708	7,908
Franchise taxes	15,000	15,000	14,693	(307)
Alcoholic beverage tax	4,000	4,000	4,315	315
Tobacco tax	700	700	637	(63)
Motor vehicle and gas taxes	5,800	5,800	5,339	(461)
Fines	30,000	40,500	46,510	6,010
Other revenues	18,300	18,300	4,097	(14,203)
Grants/donations	5,000	5,000	9,898	4,898
Interest	500	500	247	(253)
Total Resources	<u>132,100</u>	<u>142,600</u>	<u>143,232</u>	<u>632</u>
Charges (Outflows):				
General Government:				
Materials and supplies	3,000	1,000	698	302
Other services and charges	20,000	15,475	12,374	3,101
Capital outlay		1,000	921	79
Total General Government	<u>23,000</u>	<u>17,475</u>	<u>13,993</u>	<u>3,482</u>
Parks:				
Materials and supplies	400	550	394	156
Other services and charges	1,000	1,600	1,504	96
Total Parks & Recreation	<u>1,400</u>	<u>2,150</u>	<u>1,898</u>	<u>252</u>
Fire:				
Materials and supplies	3,500	13,300	14,295	(995)
Other services and charges	10,000	10,000	9,526	474
Total Fire	<u>13,500</u>	<u>23,300</u>	<u>23,821</u>	<u>(521)</u>
Police:				
Personnel services	33,000	38,000	37,103	897
Materials and supplies	10,000	10,200	8,603	1,597
Other services and charges	10,000	14,000	13,143	857
Capital outlay				
Total Police	<u>53,000</u>	<u>62,200</u>	<u>58,849</u>	<u>3,351</u>
Street and Alley:				
Materials and supplies	1,000	2,500	1,685	815
Other services and charges	8,000	11,000	10,382	618
Total Street and Alley	<u>9,000</u>	<u>13,500</u>	<u>12,067</u>	<u>1,433</u>

TOWN OF PAOLI
 BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
 GENERAL FUND (Continued)
 YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Municipal Court:	\$	\$	\$	\$
Personnel services	2,400	1,550	1,484	66
Other services and charges	2,500	2,500	2,400	100
Total Municipal Court	4,900	4,050	3,884	166
Animal Control:				
Personnel services	1,000			
Materials and supplies	200	200		200
Other services and charges	1,000	200	176	24
Total Animal Control	2,200	400	176	224
Town Clerk/Treasurer:				
Personnel services	8,100	8,100	8,003	97
Town Attorney:				
Other Services and Charges	2,000	250	12	238
Maintenance:				
Materials and supplies	1,000			
Other services and charges	3,000	2,000	1,711	289
Total Maintenance	4,000	2,000	1,711	289
Cemetery:				
Materials and supplies	2,000	1,000	920	80
Other services and charges	9,000	8,175	8,170	5
Total Cemetery	11,000	9,175	9,090	85
Total Charges	132,100	142,600	133,504	9,096
Other Financing Sources:				
Transfer from other funds				
Transfer to other funds			(1,574)	(1,574)
Total Other Financing Sources			(1,574)	(1,574)
Ending budgetary fund balance	\$ 39,953	\$ 39,953	\$ 48,107	\$ 8,154

TOWN OF PAOLI, OKLAHOMA
NOTES TO BUDGETARY COMPARISON SCHEDULE
JUNE 30, 2012

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.