

Town of Locust Grove
Mayes County, Oklahoma

Independent Auditor's Report and Financial Statements

For the Fiscal Year Ended
June 30, 2023

Town of Locust Grove
Mayes County, Oklahoma

TABLE OF CONTENTS

Independent Auditor's Report on the Financial Statements	1-2
Report on Internal Control over Financial Reporting and on Compliance Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	3
<u>Financial Statements</u>	
Statement of Net Position – Modified Cash Basis – Government Wide	4
Statement of Activities – Modified Cash Basis – Government Wide	5
Balance Sheet – Modified Cash Basis - Governmental Fund	6
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets – Modified Cash Basis	7
Statement of Revenues, Expenditures and Changes in Fund Balance – Modified Cash Basis – Governmental Funds	8
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities – Modified Cash Basis	9
Statement of Position – Modified Cash Basis - Proprietary Funds	10
Statement of Revenues, Expenses and Changes in Net Position – Modified Cash Basis - Proprietary Funds	11
Statement of Cash Flows – Modified Cash Basis – Proprietary Funds	12
<u>Notes to the Financial Statements</u>	13-23
<u>Other Supplemental Information</u>	
Schedule of Audit Findings and Questioned Costs	24



To the Council of
Town of Locust Grove
Locust Grove, Oklahoma

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying modified cash basis financial statements of Town of Locust Grove, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Town of Locust Grove's basic modified cash basis financial statements as listed in the table of contents.

In our opinion, the modified cash basis financial statements referred to above present fairly, in all material respects, the respective financial position of the Town of Locust Grove, as of June 30, 2023, and the respective changes in financial position, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 Locust Grove 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

We draw attention to Note B 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 modified cash basis of accounting, which is described in Note 1. This includes 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town of Locust Grove's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

HOOD & ASSOCIATES CPAs, PC

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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 Locust Grove'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 Locust Grove'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 December 11, 2023, on our consideration of the Town of Locust Grove'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 Locust Grove'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 Locust Grove's internal control over financial reporting and compliance.



Hood & Associates CPAs, PC

December 11, 2023



To the Council of
Town of Locust Grove
Locust Grove, Oklahoma

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

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, each major fund and the aggregate remaining fund information of Town of Locust Grove, Oklahoma, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated December 11, 2023. Our report included an emphasis-of-matter paragraph related to the Town's use of comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the internal control over financial reporting (internal control) to determine 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 Locust Grove, Locust Grove, Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Locust Grove, Locust Grove, Oklahoma's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding 2023-1 to be material weaknesses.

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. We consider the deficiencies described in the accompany schedule of findings and questioned costs as items Finding 2023-1 to be significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Locust Grove, Locust Grove, 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 Locust Grove, Locust Grove, Oklahoma's Response to Findings

Town of Locust Grove, Locust Grove, Oklahoma's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Town of Locust Grove, Locust Grove, 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 my 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.

Hood & Associates, CPAs, PC

Hood & Associates CPAs, PC
December 11, 2023

Town of Locust Grove
Mayes County, Oklahoma
Statement of Net Position – Modified Cash Basis
Government Wide
June 30, 2023

	<u>Primary Government</u>		
	<u>Governmental</u>	<u>Business-Type</u>	<u>Totals</u>
	<u>Activities</u>	<u>Activities</u>	
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 1,656,385	\$ 2,139,702	\$ 3,796,087
Non-current Assets:			
Restricted Assets:			
Cash and Cash Equivalents		112,516	112,516
Capital Assets:			
Property, Plant and Equipment, net	1,766,036	18,607,221	20,373,257
Total Non-current Assets	1,766,036	18,719,737	20,485,773
Total Assets	3,422,421	20,859,439	24,281,860
LIABILITIES			
Current Liabilities:			
Accounts Payable - Employee Savings	13,719		13,719
Payable from Restricted Assets:			
Meter Deposits Payable		62,599	62,599
Current portion of Notes Payable		92,987	92,987
Total Current Liabilities	13,719	155,586	169,305
Non-Current Liabilities:			
Notes Payable – net of Current Portion	0	10,531,700	10,531,700
Total Liabilities	13,719	10,687,286	10,701,005
NET POSITION			
Invested in capital assets, net of related debt	1,766,036	7,982,534	9,748,570
Restricted for:			
Debt Service		50,256	50,256
Meter Deposits		(338)	(338)
Specific purpose	1,115,898		1,115,898
Unrestricted	526,769	2,139,702	2,666,470
Total Net Assets	\$ 3,408,702	\$ 10,172,153	\$ 13,580,855

The accompanying notes are an integral part of the combined financial statements.

Town of Locust Grove
Mayes County, Oklahoma
Statement of Activities – Modified Cash Basis
Government Wide
For the Year Ended June 30, 2023

Functions/Programs:	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<i>Governmental Activities:</i>					
General Government	\$ 279,310	\$ 98,528	\$ 289,628	\$	\$ 108,846
Library	87,017		28,262		(58,755)
Public Safety & Judiciary					
Fire	94,450	29,174	100,000		34,724
Police	771,397	69,294			(702,103)
Transportation:					
Streets	420,664	83,110	9,900		(327,654)
TOTAL GOVERNMENTAL ACTIVITIES	<u>1,652,839</u>	<u>280,107</u>	<u>427,790</u>	<u>0</u>	<u>(944,942)</u>
<i>Business Type Activities</i>					
Utilities	1,682,140	1,100,104	176,800	0	(405,236)
TOTAL	<u>\$ 3,334,979</u>	<u>\$ 1,380,210</u>	<u>\$ 604,590</u>	<u>\$ 0</u>	<u>\$ (1,350,178)</u>
		Primary Government			Totals
		Governmental Activities	Business-Type Activities		
Changes in Net Assets:					
Net (expense) revenue		\$ (944,942)	\$ (405,236)		\$ (1,350,178)
General revenues:					
Tax revenues		1,242,249	1,208,000		2,450,249
Interest Income		8,559	12,847		21,405
Total General Revenues		<u>1,250,807</u>	<u>1,220,847</u>		<u>2,471,654</u>
Change in Net Assets		305,865	815,611		1,121,476
Net Assets-beginning		<u>3,102,837</u>	<u>9,356,542</u>		<u>12,459,379</u>
Net Assets-ending		<u>\$ 3,408,702</u>	<u>\$10,172,153</u>		<u>\$13,580,855</u>

The accompanying notes are an integral part of the combined financial statements.

Town of Locust Grove
Mayes County, Oklahoma
Balance Sheet – Modified Cash Basis - Governmental Funds
June 30, 2023

	<u>General Fund</u>	<u>Street & Alley Fund</u>	<u>Public Safety</u>	<u>Fire Equip/Spec</u>	<u>Other Govt'l Funds</u>	<u>Totals</u>
ASSETS						
Cash	\$ 526,769	\$ 492,922	\$ 443,290	\$ 118,696	\$ 74,709	\$ 1,656,385
LIABILITIES & FUND EQUITY						
Liabilities:						
Accounts Payable - Emp	\$ 0	\$ 0	\$ 0	\$ 0	\$ 13,719	\$ 13,719
 Fund Balances:						
Restricted		492,922	443,290	118,696	60,990	1,115,898
Unassigned	526,769					526,769
Total Fund Balances	<u>526,769</u>	<u>492,922</u>	<u>443,290</u>	<u>118,696</u>	<u>60,990</u>	<u>1,642,666</u>
 Total Liabilities & Fund Balances	 \$ 526,769	 \$ 492,922	 \$ 443,290	 \$ 118,696	 \$ 74,709	 \$ 1,656,385

The accompanying notes are an integral part of the combined financial statements.

Town of Locust Grove
Mayes County, Oklahoma
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
Modified Cash Basis
For the Year Ended June 30, 2023

Total Fund Balances – Governmental Funds	\$ 1,642,666
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	<u>1,766,036</u>
Net Assets of Governmental Activities	<u>\$ 3,408,702</u>

The accompanying notes are an integral part of the combined financial statements.

Town of Locust Grove
Mayes County, Oklahoma
Statement of Revenues, Expenditures and Changes in Fund Balances
Modified Cash Basis
Governmental Funds
For the Year Ended June 30, 2023

	General Fund	Street & Alley Fund	Public Safety	Fire Equip/Spec	Other Govt'l Funds	Totals
REVENUES						
Charges for Services	\$ 22,086	\$	\$	\$	\$ 3,100	\$ 25,186
Fines	62,296				(1,602)	60,694
Grants	289,628	9,900		100,000	28,262	427,790
Investment Income	3,810	1,911	1,767	788	283	8,559
Other	41,442	83,110	5,500	29,174	11,062	170,288
Taxes	<u>799,053</u>	<u>266,631</u>	<u>152,360</u>	<u>10,892</u>	<u>13,312</u>	<u>1,242,249</u>
Total Revenues	<u>1,218,315</u>	<u>361,552</u>	<u>159,627</u>	<u>140,854</u>	<u>54,418</u>	<u>1,934,765</u>
EXPENDITURES						
Personal Services	630,177					630,177
Maintenance and Operation	<u>538,972</u>	<u>420,664</u>	<u>9,436</u>	<u>68,234</u>	<u>63,781</u>	<u>1,101,088</u>
Total Expenditures	<u>1,169,149</u>	<u>420,664</u>	<u>9,436</u>	<u>68,234</u>	<u>63,781</u>	<u>1,731,265</u>
Net Change in Fund Balance before transfers	49,165	(59,112)	150,191	72,620	(9,364)	203,500
Transfer to other funds	<u>174,429</u>	<u>0</u>	<u>(74,429)</u>	<u>(100,000)</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balance	223,594	(59,112)	75,762	(27,380)	(9,364)	203,500
Fund Balance - Beginning	<u>303,175</u>	<u>552,034</u>	<u>367,528</u>	<u>146,076</u>	<u>70,354</u>	<u>1,439,166</u>
Fund Balance - Ending	<u>\$ 526,769</u>	<u>\$ 492,922</u>	<u>\$ 443,290</u>	<u>\$ 118,696</u>	<u>\$ 60,990</u>	<u>\$1,642,666</u>

The accompanying notes are an integral part of the combined financial statements.

Town of Locust Grove
Mayes County, Oklahoma
Reconciliation of Change in Fund Balances of Governmental Funds to the Statement of Activities
Modified Cash Basis
For the Year Ended June 30, 2023

Net Change in Fund Balances – Total Governmental Funds	\$ 203,500
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Amounts reported for governmental activities in the statement of activities are different because:

In the governmental funds, capital outlays are reported as expenditures while in the government-wide statement of activities, depreciation expense is reported to allocate those expenditures over the life of the assets.

Capital Asset Additions	180,643
Depreciation expense	<u>(78,278)</u>

Change in Net Assets of Governmental Activities	<u>\$ 305,865</u>
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The accompanying notes are an integral part of the combined financial statements.

Town of Locust Grove
Mayes County, Oklahoma
Statement of Net Position
Modified Cash Basis
Proprietary Funds-Enterprise Funds
June 30, 2023

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ <u>2,139,702</u>
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Non-current Assets:

Restricted Assets:

Cash and Cash Equivalents	112,516
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Capital Assets:

Property, Plant and Equipment, net of accumulated depreciation	<u>18,607,221</u>
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Total Non-Current Assets	<u>18,719,737</u>
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Total Assets	<u>20,859,439</u>
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LIABILITIES

Current Liabilities:

Payable from Restricted Net Assets:

Meter Deposits Payable	62,599
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Current Portion of Notes Payable	<u>92,987</u>
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Total Current Liabilities	155,586
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Non-Current Liabilities

Notes Payable – net of current portion	<u>10,531,700</u>
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Total Liabilities	<u>10,687,286</u>
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NET POSITION

Invested in capital assets, net of related debt	7,982,534
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Restricted	49,918
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Unreserved net assets	<u>2,139,702</u>
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Total Net Position	<u>\$ 10,172,153</u>
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The accompanying notes are an integral part of the combined financial statements.

Town of Locust Grove
Mayes County, Oklahoma
Statement of Revenues, Expenses and
Changes in Net Position
Modified Cash Basis
Proprietary Funds
For the Year Ended June 30, 2023

Operating Revenues:

Utility Revenues	\$ 1,005,308
Other Revenues	94,795
Total Revenues	<u>1,100,104</u>

Operating Expenses:

Personal services	489,486
Licenses and Fees	11,226
Equipment Rental	
Outside Services	210,989
Insurance Expenses	101,399
Fuel and Oil	20,374
Miscellaneous	12,607
Postage and Fees	6,093
Depreciation	180,196
Plant and Distribution Expenses	253,065
Telephone and Utilities	130,287
Repairs and maintenance	48,145
Total Operating Expenses	<u>1,463,866</u>
Net Operating Income	<u>(363,762)</u>

Non-Operating Revenues (Expenses):

Interest income	12,847
Grant revenues	176,800
Interest expense	(218,274)
Sales Tax revenues	<u>1,208,000</u>
Total Non-Operating Revenues (Expenses)	<u>1,179,373</u>

Net Income (Loss)	815,611
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Total Net Position-Beginning	<u>9,356,542</u>
Total Net Position-Ending	<u>\$ 10,172,153</u>

The accompanying notes are an integral part of the combined financial statements.

Town of Locust Grove
Mayes County, Oklahoma
Statement of Cash Flows
Proprietary Fund Type - Enterprise Fund
For the Year Ended June 30, 2023

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$ 1,100,104
Cash paid for personnel costs	(489,486)
Cash paid for operations and services	<u>(871,322)</u>
Net Cash Provided (Used) by Operating Activities	<u>(223,965)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Sales Tax Received – Town of Locust Grove	1,208,000
Grant revenues	<u>176,800</u>
Net Cash Provided (Used) by NonCapital Financing Activities	<u>1,384,801</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Purchase of capital assets	(3,111,206)
Proceeds from long term debt	2,624,115
Principal payments on debt	(292,462)
Interest paid	<u>(218,274)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(997,827)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest and dividends on investments	<u>12,847</u>
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Net increase (decrease) in cash	175,856
Cash and cash equivalents, beginning of year	<u>2,076,363</u>
Cash and cash equivalents, end of year <i>(Note 1)</i>	<u><u>\$ 2,252,218</u></u>

Reconciliation of Operating Income to Net Cash Provided (Used) by

Operating Activities:

Operating income	\$ (363,762)
Depreciation Expense	180,196
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Net changes in assets and liabilities:	
Other assets	(38,393)
Meter Deposits Payable	<u>(2,005)</u>
Net cash provided (used) by operating activities	<u><u>\$ (223,965)</u></u>

The accompanying notes are an integral part of the combined financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Town of Locust Grove
Mayes County, Oklahoma
Notes to the Financial Statements
June 30, 2023

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following notes to the financial statements are an integral part of the Town's financial statements.

The Town complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the Town the option of electing to apply FASB Pronouncements issued after November 30, 1989. The Town has elected not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note. The Town complies with the reporting requirements of GASB Statement Nos. 33 and 34 for the year ended June 30 and all other applicable GASB Statements.

As discussed further in Note 1, 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) as applied to local government units. Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. 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 measurements and recognition criteria of the modified cash basis of accounting.

FINANCIAL REPORTING ENTITY

The Town's financial reporting entity is comprised of the following:

Primary Government:	Town of Locust Grove
Blended Component Unit:	Locust Grove Public Works Authority

In determining the financial reporting entity, the Town complies with the provision of GASB Statement No. 14, "The Financial Reporting Entity," and includes all component units of which the Town appointment a voting majority of the units' board; the Town is either able to impose its will on the unit or a financial benefit or burden relationship exists.

Blended Component Units

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the Town Council or the component unit provides services entirely to the Town. The component unit's fund is blended into those of the Town's by appropriate activity type to comprise the primary government presentation.

Blended Component Unit	Brief Description/Inclusion Criteria	Reporting
Locust Grove Public Works Authority	Created to finance, develop and operate The water and sewer services activities.	Enterprise Fund

Discretely Presented Component Units

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. Currently, the Town has no discretely presented component units.

Town of Locust Grove
Mayes County, Oklahoma
Notes to the Financial Statements
June 30, 2023

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

BASIS OF PRESENTATION

Government-wide Statements: The statement of net assets and the statement of activities display information about the primary government (the Town). These statements include the financial activities of the overall government. Eliminations have been made to minimize the double-accounting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Town and for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function.

Fund Financial Statements: Fund financial statements of the reporting entity are organized into funds each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts which constitute its assets, liabilities, fund equity, revenues and expenditure/expenses. Fund are organized into three major categories: governmental, proprietary and fiduciary. 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 expenditure/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, and
- B. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

GOVERNMENTAL FUNDS

General Fund. This is the Town's primary operating fund. It accounts for all financial resources of the general government , except those required to be accounted for in another fund.

PROPRIETARY FUND

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:

Locust Grove Public Works Authority	Accounts for activities of the public trust in providing Water and sewer services to the public.
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MAJOR AND NON-MAJOR FUNDS

Major:

General fund

Volunteer Fire Special

Public Safety

Proprietary Fund: Locust Grove Public Works Authority

Non-Major:

Street & Alley Fund

Library & Parks Fund

Fireman's Equipment

Employee Christmas Fund

Cleet Fund

Jail Fund

Town of Locust Grove
Mayes County, Oklahoma
Notes to the Financial Statements
June 30, 2023

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING

Measurement focus is a term used to describe “when” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

MEASUREMENT FOCUS

The government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b. below:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of net income, financial position and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applied to them.

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. The basis of accounting involves modifications to the cash basis of accounting to report in the statement 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.

The modified cash basis of accounting differs from GAAP primarily because certain 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 adjustments to the 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 modified accrual basis of accounting.

ASSETS, LIABILITIES AND EQUITY

Cash and Cash Equivalents

For the purpose of Statement of Net Assets, “cash, including time deposits” includes all demand, savings accounts and certificates of deposit of the Town. For the purposes of the proprietary fund Statement of Cash Flows, “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.

Town of Locust Grove
Mayes County, Oklahoma
Notes to the Financial Statements
June 30, 2023

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Major receivable balances for the governmental activities include sales, use and franchise taxes. Business-type activities report water and sewer charges as its major receivable.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as sales tax, franchise tax and other intergovernmental revenues since they are usually both measurable and available. Non-exchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis of accounting. Interest and investment earnings are recorded only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year end and not yet received. Utility accounts receivable comprise the majority of proprietary fund receivables.

Capital Assets

The accounting treatment over property, plant and equipment (fixed 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.

Government-Wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost or estimated historical cost is actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation.

The range of estimated useful lives by type of asset is as follows:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	20-60
Building improvements	20-60
Utility system	20-60
Equipment	3-20

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in government-wide statements.

*Town of Locust Grove
Mayes County, Oklahoma
Notes to the Financial Statements
June 30, 2023*

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Equity Classifications

Government-Wide Statements

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

- a. 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 improvement of those assets.
- b. Restricted net position – consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors or laws or regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position – all other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

Fund Financial Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, the unreserved further split between designated. Proprietary fund equity is classified the same as in the government-wide statements.

Compensated Absences

The Town’s policies regarding vacation time permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences (when material) is recorded as long-term debt in the government-wide financial statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred.

Employee Pension Plans

The Town does not offer a pension plan to its employees.

REVENUES, EXPENDITURES AND EXPENSES

SALES TAX

The town presently levies a sales tax on taxable sales within the Town. The sales tax is collected by the Oklahoma Tax Commission and remitted to the Town in the month following receipt by the Oklahoma Tax Commission. The Tax Commission receives the sales tax approximately on month after collection by vendors. The sales tax is recorded entirely in the General Fund.

USE TAX

The town levies a use-tax on personal property purchased outside the town limits but stored, used or consumed within the town. The use tax is collected by the Oklahoma Tax Commission and remitted to the Town in the month following receipt by the Tax Commission, which is one month after the tax is received by the vendors. The use taxes are allocated entirely to the General Fund.

Town of Locust Grove
Mayes County, Oklahoma
Notes to the Financial Statements
June 30, 2023

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

OPERATING REVENUES AND EXPENSES

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expense not related to capital and related financing, noncapital financing or investing activities.

EXPENDITURES/EXPENSES

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:]

Governmental Funds – By Character: Current (further classified by function), Debt Service,
Capital Outlay
Proprietary Funds – By Operating and Non-Operating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make 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. 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. An analysis of the Town's compliance with significant laws and regulations and demonstration of its stewardship over Town resources follows:

FUND ACCOUNTING REQUIREMENTS

The Town complies with all state and local laws and regulations requiring the use of separate funds. The legally required funds used by the town include the following:

<u>Fund</u>	<u>Required By</u>
Municipal Authority Fund	Trust Indenture

FUND EQUITY RESTRICTIONS

DEFICIT PROHIBITION

Title 11, Section 17-211 of Oklahoma Statutes prohibits the creation of a deficit fund balance in any individual fund. The Town complied with this statute in all material respects for the year ended June 30, 2023.

*Town of Locust Grove
Mayes County, Oklahoma
Notes to the Financial Statements
June 30, 2023*

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (cont'd)

REVENUE RESTRICTIONS

The Town has various restrictions placed over certain revenue sources from state or local requirements. The primary restricted revenue sources include:

<u>Revenue Source</u>	<u>Legal Restrictions of Use</u>
Gasoline Excise Tax	Street and Alley Purposes
Commercial Vehicle Tax	Street and Alley Purposes
Water and Sewer Revenue	Utility Operations

For the year ended June 30, 2023 the Town complied, in all material respects, with those revenue restrictions.

UNINSURED AND UNCOLLATERALIZED DEPOSITS

In accordance with state law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at the lower of market or par. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain State of Oklahoma or political subdivision debt obligations or surety bonds. As required by 12 U.S.C.A., Section 1823(e), all financial institutions pledging collateral to the Town must have a written collateral agreement approved by the board of directors or loan committee. As reflected in Note III A., all deposits were fully insured or collateralized.

Deposits and Investment Laws and Regulations

Investments of the Town (excluding Public Trusts) whose population exceeds 3,000 according to the latest census information are limited by state law to the following:

- 1- Direct obligations of the U.S. Government, its agencies or instrumentalities to the payment of which the full faith and credit of the Government of the United States is pledged, or obligations to the payment of which the full faith and credit of this state is pledged;
- 2- Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions;
- 3- With certain limitation, negotiable certificates of deposit, prime bankers acceptance, prime commercial paper and repurchase agreements with certain limitations;
- 4- County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district;
- 5- Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligation of national mortgage associations;
- 6- Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs a., b., c., and d.

Public trusts created under O.S. Title 60 are not subject to the above noted investment limitations and are primarily governed by any restrictions in their trust or bond indentures. For the year ended June 30, 2023, the Town and its public trusts complied, in all material respects, with these investment restrictions.

Town of Locust Grove
Mayes County, Oklahoma
Notes to the Financial Statements
June 30, 2023

NOTE 3: DETAILED NOTES ON TRANSACTIONS CLASSES/ACCOUNTS

CASH AND INVESTMENTS

State statutes govern the Town's investment policy. Permissible investments include direct obligations of the United States Government and Agencies; certificates of deposit of savings and loan associations, and bank and trust companies; and savings accounts or savings certificates of savings and loan associations and trust companies. Collateral is required for demand deposits and certificates of deposit for all amounts not covered by federal deposit insurance. Investments are stated at cost. The Town invests entirely in certificates of deposit.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town's cash deposits, including interest-bearing certificates of deposits, are maintained in financial institutions. The Town does not have a deposit policy for custodial credit risk. As of June 30, 2023, none of the Town's investments were exposed to custodial credit risk because there were none that were uninsured or uncollateralized.

Town of Locust Grove
Mayes County, Oklahoma
Notes to the Financial Statements
June 30, 2023

NOTE 3: DETAILED NOTES ON TRANSACTIONS CLASSES/ACCOUNTS

Capital Assets

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
<i>Capital assets being depreciated:</i>				
Building and Equipment	\$2,314,897	\$ 180,643	\$ 0	\$ 2,495,540
Less accumulated depreciation	<u>651,226</u>	<u>\$ 78,278</u>	<u>\$ 0</u>	<u>729,504</u>
Governmental activity capital assets, net	<u>\$1,663,671</u>			<u>\$ 1,766,036</u>
Business-type activities:				
<i>Capital assets being depreciated:</i>				
Land, Distribution System				
Buildings/Equipment/CIP	\$18,600,133	\$3,111,206	\$ 0	\$21,711,339
Less accumulated depreciation for:				
Sewer System and equipment	<u>2,923,923</u>	<u>\$ 180,196</u>	<u>\$ 0</u>	<u>3,104,119</u>
Business-type activity capital assets, net	<u>\$15,676,210</u>			<u>\$18,607,220</u>

OTHER LONG-TERM DEBT

As required by the Oklahoma State Constitution, the Town (excluding Public Trusts) may not incur any indebtedness that would require payment from resources beyond the current fiscal year revenue, without first obtaining voter approval. For the year ended June 30, 2023, the Town incurred no such indebtedness.

NOTE 4: LONG TERM DEBT

CHANGES IN LONG TERM DEBT

The following is a summary of changes in long-term debt for the year ended June 30, 2023:

	<u>Balance June 30, 2022</u>	<u>Proceeds</u>	<u>Payments</u>	<u>Balance June 30, 2023</u>	<u>Amount Due Within One Year</u>
Business-Type Activities:					
Notes Payable	\$8,293,033	\$2,624,115	\$ 292,462	\$10,624,687	\$ 92,987

Town of Locust Grove
Mayes County, Oklahoma
Notes to the Financial Statements
June 30, 2023

NOTE 4: LONG TERM DEBT (continued)

LONG TERM DEBT

The accounting treatment of long-term debt 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.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of note payable and capitalized lease obligations.

Long term debt for governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as revenue and payments of principal and interest are reported as expenditures. The accounting for long-term debt of the proprietary fund is the same in the fund statements as it is in the government-wide statements.

LONG TERM DEBT

The reporting entity's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities.

Business-Type Activities

As of June 30, 2023, the long-term debt payable from proprietary fund resources consisted of the following:

The Authority issued a promissory note dated December 4, 2013, for the purpose of wastewater treatment plant improvements. The note bears an interest rate of 3.01% per annum with semi annual installments in September and March until September 2036. The balance at June 30, 2023 was \$1,523,255. The note is secured by the water distribution system, sanitary sewer, garbage and year-to-year 2% sales tax pledge.

The Authority issued a promissory note dated September 15, 2020, for the purpose of expansion and upgrade water treatment plant. The note bears an interest rate of approximately 2.35% per annum with semi annual installments in September and March until March 2052. The balance at June 30, 2023 was \$9,101,432. The note is secured by the water distribution system, sanitary sewer, garbage and year-to-year 2% sales tax pledge. This project is still in progress, therefore there is no current principal payments required as of June 30, 2023.

Town of Locust Grove
Mayes County, Oklahoma
Notes to the Financial Statements
June 30, 2023

NOTE 4: LONG TERM DEBT (continued)

The principal maturities of the long term debt are as follows:

Year Ended	
<u>June 30</u>	
2024	\$ 92,987
2025	95,807
2026	98,713
2027	101,674
2028	104,791
Thereafter	<u>10,130,715</u>
Totals	<u>\$ 10,624,687</u>

NOTE 5: OTHER MATTERS

RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; or acts of God. The Town purchases commercial insurance to cover these risks, including general and auto liability, property damage, and public officials liability. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

COMMITMENTS AND CONTINGENCIES

As of June 30, 2023 there were no pending commitments or contingencies.

SUBSEQUENT EVENTS

As of December 11, 2023, there were no subsequent events to be disclosed.

Town of Locust Grove
Mayes County, Oklahoma
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2023

A. Prior Year Audit Findings

2022 - 1: SAS 115

A control deficiency 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 on a timely basis misstatements or noncompliance with applicable requirements of a governmental entity. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that (a) a material misstatement of the entity's financial statements, or (b) noncompliance with applicable governmental entities, that is more that inconsequential will not be prevented or detected. We consider the deficiencies describe below to be significant deficiencies:

The Town of Locust Grove and the Locust Grove Public Works Authority currently does not have the capability report their financial data reliably in accordance with generally accepted accounting principles. According to SAS No. 115, the inability to produce materially accurate financial statements is a significant control deficiency. Thus, there is a more than remote likelihood that a misstatement of the entity's financial statements that is more that inconsequential will not be prevented or detected.

Management Response:

Management will discuss possibilities for alternatives for improvement of the deficiency in the control deficiency.

B. Current Year Audit Findings

2023 - 1: SAS 115

A control deficiency 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 on a timely basis misstatements or noncompliance with applicable requirements of a governmental entity. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that (a) a material misstatement of the entity's financial statements, or (b) noncompliance with applicable governmental entities, that is more that inconsequential will not be prevented or detected. We consider the deficiencies describe below to be significant deficiencies:

The Town of Locust Grove and the Locust Grove Public Works Authority currently does not have the capability report their financial data reliably in accordance with generally accepted accounting principles. According to SAS No. 115, the inability to produce materially accurate financial statements is a significant control deficiency. Thus, there is a more than remote likelihood that a misstatement of the entity's financial statements that is more that inconsequential will not be prevented or detected.

Management Response:

Management will discuss possibilities for alternatives for improvement of the deficiency in the control deficiency.

C. Questioned Costs

NONE