

TOWN OF PAOLI

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED JUNE 30, 2023**

TOWN OF PAOLI
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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Town of Paoli, Oklahoma

Opinions

I have audited the accompanying modified-cash basis financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Paoli, Oklahoma, (Town) 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 as listed in the table of contents.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, and each major fund of the Town, as of June 30, 2023, and the respective changes in cash basis financial position, and where applicable, cash flows thereof for the year then ended in accordance with the modified-cash basis of accounting described in Note 1.B.

Basis for Opinions

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

Emphasis of Matter—Basis of Accounting

I draw attention to Note 1.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. My opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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'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.

Auditor's Responsibilities for the Audit of the Financial Statements

My 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 my 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*, I:

- 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'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 my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town's ability to continue as a going concern for a reasonable period of time.

I am 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 I identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated March 19, 2024, on my consideration of the Town's internal control over financial reporting and on my 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 my 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'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 the Town's internal control over financial reporting and compliance.

Regards,



Michael Green, CPA

Stilwell, Oklahoma
March 19, 2024

TOWN OF PAOLI
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
JUNE 30, 2023

	Government Activities	Business-Type Activities	Totals
Assets			
Current assets			
Cash and cash equivalents	\$ 208,975	\$ 206,907	\$ 415,882
Restricted cash and cash equivalents	27,315	#REF!	#REF!
Due from other funds	480	#REF!	#REF!
Total current assets	<u>236,770</u>	<u>#REF!</u>	<u>#REF!</u>
Noncurrent assets			
Work in process	-	75,008	75,008
Land	5,000	4,134	9,134
Buildings, property and equipment	659,253	1,495,572	2,154,825
Less accumulated depreciation	<u>(387,601)</u>	<u>(985,362)</u>	<u>(1,372,963)</u>
Total noncurrent assets	<u>276,652</u>	<u>589,352</u>	<u>866,004</u>
Total assets	<u>513,422</u>	<u>#REF!</u>	<u>#REF!</u>
Liabilities			
Current liabilities			
Due to other funds	-	480	480
Total current liabilities	<u>-</u>	<u>480</u>	<u>480</u>
Noncurrent liabilities			
Refundable deposits	-	19,791	19,791
Total noncurrent liabilities	<u>-</u>	<u>19,791</u>	<u>19,791</u>
Total liabilities	<u>-</u>	<u>20,271</u>	<u>20,271</u>
Net position (Note 1.D.)			
Net Investment in capital assets	276,652	589,352	866,004
Restricted for cemetery care	2,903	-	2,903
Unassigned	<u>233,867</u>	<u>186,636</u>	<u>420,503</u>
Total net position	<u>\$ 513,422</u>	<u>\$ 775,988</u>	<u>\$ 1,289,410</u>

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

TOWN OF PAOLI
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
YEAR ENDED JUNE 30, 2023

Functions/programs	Program Revenues				Net (Expenses) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contracts	Capital Grants and Contracts	Primary Government		
					Governmental Activities	Business-type Activities	Totals
Governmental activities							
General Government	\$ 87,800	\$ -	\$ -	\$ -	\$ (87,800)	\$ -	\$ (87,800)
Public Safety	182,857	-	17,553	-	(165,304)	-	(165,304)
Cemetery	6,964	5,864	-	-	(1,100)	-	(1,100)
Court	23,289	-	-	-	(23,289)	-	(23,289)
Total government activities	300,910	5,864	17,553	-	(277,493)	-	(277,493)
Business-type activities							
Water department	6,297	110,701	-	-	-	104,404	104,404
Sewer department	2,419	60,113	-	-	-	57,694	57,694
Sanitation department	44,705	99,476	-	-	-	54,771	54,771
Administration and general	167,269	-	-	-	-	(167,269)	(167,269)
Depreciation	33,999	-	-	-	-	(33,999)	(33,999)
Administration and general	-	-	-	-	-	-	-
Total business-type activities	254,689	270,290	-	-	-	15,601	15,601
Totals	\$ 555,599	\$ 276,154	\$ 17,553	\$ -	(277,493)	15,601	(261,892)
General revenues							
Sales tax					49,183	-	49,183
Use tax					29,472	-	29,472
Tobacco tax					347	-	347
Alcohol beverage tax					8,313	-	8,313
Gasoline and Motor Vehicle Tax					5,226	-	5,226
Donations					2,985	-	2,985
Franchise fees					15,939	-	15,939
Miscellaneous					127,173	-	127,173
Transfers in					-	54,039	54,039
Transfers out					(54,039)	-	(54,039)
Investment earnings					701	306	1,007
Total general revenues and transfers					185,300	54,345	239,645
Change in net position					(92,193)	69,946	(22,247)
Net position, beginning of year					427,716	706,042	1,133,758
Net position, end of year					\$ 335,523	\$ 775,988	\$ 1,111,511

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

TOWN OF PAOLI
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2023

	General Fund	Cemetery Fund	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 208,975	\$ -	\$ 208,975
Restricted cash and investments	24,412	2,903	27,315
Receivable from other funds	480	-	480
Total assets	<u>233,867</u>	<u>2,903</u>	<u>236,770</u>
Liabilities			
Due to other funds	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance (Note 1.D.)			
Restricted	-	2,903	2,903
Unassigned	233,867	-	233,867
Total fund balances	<u>233,867</u>	<u>2,903</u>	<u>236,770</u>
Total liabilities and fund balances	<u>\$ 233,867</u>	<u>\$ 2,903</u>	

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$ 664,253

The accumulated depreciation is \$ 387,601

Net effect for reconciliation 276,652

Net position of governmental activities \$ 513,422

The accompanying notes and auditor's report 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, 2023

	General Fund	Cemetery Care Fund	Total Governmental Funds
Revenues:			
Sales tax	\$ 49,183	\$ -	\$ 49,183
Use tax	29,472	-	29,472
Gasoline and Motor Vehicle tax	5,226	-	5,226
Alcohol beverage tax	8,313	-	8,313
Tobacco tax	347	-	347
Franchise fees	15,939	-	15,939
Court Fines and costs	177,899	-	177,899
Donations	2,985	-	2,985
Grant Income	17,553	-	17,553
Cemetery lot sales	5,864	-	5,864
Miscellaneous	126,587	586	127,173
Investment income	690	11	701
Total revenues	<u>440,058</u>	<u>597</u>	<u>440,655</u>
Expenditures:			
General government:	76,850	-	76,850
Public safety	167,660	-	167,660
Cemetery	6,964	-	6,964
Court	23,289	-	23,289
Capital outlay	72,698	-	72,698
Total expenditures paid	<u>347,461</u>	<u>-</u>	<u>347,461</u>
Change in Fund balance	<u>92,597</u>	<u>597</u>	<u>93,194</u>
Nonoperating revenue (expense)			
Transfers in	-	-	-
Transfers out	(54,039)	-	(54,039)
Total nonoperating revenue (expense)	<u>(54,039)</u>	<u>-</u>	<u>(54,039)</u>
Fund balances, beginning of year	<u>195,309</u>	<u>2,306</u>	<u>197,615</u>
Fund balances, end of year	<u>\$ 233,867</u>	<u>\$ 2,903</u>	<u>\$ 236,770</u>

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

TOWN OF PAOLI
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE, CONTINUED - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2023

Reconciliation of the change in fund balances: total governmental funds to the change in net position of governmental activities:

Net change in fund balances: total governmental funds	\$	93,194
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:

Interfund Asset and liability balances	(54,039)	
Net additions to fixed assets	72,698	
Depreciation	(26,147)	
Change in net position of governmental activities	\$	85,706

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

TOWN OF PAOLI
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUND
JUNE 30, 2023

	Municipal Authority
	Enterprise Fund
Assets	
Current assets	
Cash and cash equivalents	\$ 206,907
Total current assets	<u>206,907</u>
Noncurrent assets	
WIP	75,008
Land	4,134
Other capital assets	1,495,572
Less accumulated depreciation	(985,362)
Total noncurrent assets	<u>589,352</u>
Total assets	<u>796,259</u>
Liabilities	
Current liabilities	
Due to other governments	480
Total current liabilities	<u>480</u>
Noncurrent liabilities	
Refundable deposits	19,791
Total noncurrent liabilities	<u>19,791</u>
Total liabilities	<u>20,271</u>
Net position	
Invested in capital assets	589,352
Unrestricted	186,636
Total net position	<u>\$ 775,988</u>

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

TOWN OF PAOLI
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2023

	Municipal Authority
	Enterprise Fund
Operating revenue	
Charges for services:	
Water	\$ 94,139
Sewer	60,113
Sanitation	99,476
Penalties	6,300
Miscellaneous	10,262
Total operating revenue	<u>270,290</u>
 Operating expenses:	
Water department	6,297
Sewer department	2,419
Sanitation department	44,705
Administration and general	167,269
Depreciation	33,999
Total operating expenses	<u>254,689</u>
 Net operating income	<u>15,601</u>
 Nonoperating revenue (expense)	
Transfer In	54,039
Investment income	306
Total nonoperating revenue (expense)	<u>54,345</u>
 Change in net position	69,946
 Net position, Beginning of year	<u>706,042</u>
 Net position, end of year	<u><u>\$ 775,988</u></u>

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

TOWN OF PAOLI
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2023

	Municipal Authority Enterprise Fund
Cash flows from operating activities	
Receipts from customers	\$ 271,569
Payments to suppliers	(154,070)
Payments to other funds	(30)
Payments to employees	(66,620)
Net cash provided (used) by operating activities	<u>50,849</u>
 Cash flows from capital and related financing activities	
Purchase of capital assets	<u>(3,545)</u>
Net cash provided (used) by capital and related financing activities	<u>(3,545)</u>
 Cash flows from Investing activities:	
Transfers in (out)	54,039
Interest on cash and investments	306
Net cash provided (used) by investing activities:	<u>54,345</u>
 Net increase (decrease) in cash and cash equivalents	101,649
Cash balance beginning of year	<u>105,258</u>
Cash balance end of year	<u><u>\$ 206,907</u></u>
 Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating income (loss)	\$ 15,601
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Cash flows reported in other categories:	
Depreciation and amortization expense	33,999
Change in assets and liabilities:	
Due to/from other funds	(30)
Customer Deposits	1,279
Net cash provided by operating activities	<u><u>\$ 50,849</u></u>

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

TOWN OF PAOLI
Paoli, Oklahoma
NOTES TO THE FINANCIAL STATEMENTS
For the year ended June 30, 2023

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1.A. FINANCIAL REPORTING ENTITY

The municipality is a corporate body for public purposes created under Title 11 of the Oklahoma Statutes and accordingly is a separate entity for operating and financial reporting purposes. The general operating authority for the municipality is the Oklahoma Municipal Code contained in Title 11, Oklahoma Statutes. The Town operates under a trustees form of government and is governed by the board of trustees. The trustees elect the mayor from their own body. The Town provides the following services as authorized by its charter: general government, public safety (fire and police), streets, public works (water, sewer, and refuse).

In evaluating how to define the reporting entity, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by GASB Statement No. 14, *The Financial Reporting Entity*, as amended by Statement No. 61.

Based upon the application of these criteria, the Town's financial reporting entity is composed of the following:

Primary Government:	Town of Paoli
Blended Component Units:	Paoli Public Works Authority

The component unit is a public trust established pursuant to Title 60 of Oklahoma State Statutes. Public Trusts (Authorities) have no taxing power. The Authorities are generally created to finance Town services through issuance of revenue bonds or other non-general obligation debt and to enable the Town Commission to delegate certain functions to the governing body (Trustees) of the Authority. The Authorities generally retain title to assets which are acquired or constructed with Authority debt or other Authority generated resources. The Town, as beneficiary of the public trusts, receives title to any residual assets when the public trusts are dissolved.

1.B. BASIS OF PRESENTATION

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net position and activities are reported on a modified cash basis of accounting. The modified cash basis of accounting is based on the recording of cash and cash equivalents and changes therein, and only recognizes revenues, expenses, assets and liabilities resulting from cash transactions adjusted for certain modifications that have substantial support in generally accepted accounting principles. The Town has chosen to include adjustments for the following balances arising from cash transactions:

- capital assets and the depreciation of those assets, where applicable
- long-term debt
- cash-based interfund receivables and payables
- other cash-based receivables/payables
- investments
- utility deposit liabilities

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 accrued revenue and receivables) 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.

As a result of the Town's use of the modified cash basis of accounting, accrued liabilities related to compensated absences (vacation and sick leave) and compensatory time earned but unpaid at year-end, and any employer-related costs earned and unpaid, are not reflected in the financial statements as liabilities, but are normally reported as a commitment disclosure.

Program revenues within the statement of activities that are derived directly from each activity or from parties outside the Town's taxpayers are reported as program revenues. The Town has the following program revenues in each activity:

- General government: License and permits, operating and capital grants and contributions
- Public safety: Fine revenue, operating and capital grants and contributions
- Streets: Gas excise and commercial vehicle taxes

GOVERNMENTAL FUNDS

The Town's governmental funds are comprised of the following:

Major Funds

- General Fund - accounts for all activities not accounted for in other special-purpose funds.

Non-Major Funds

Special Revenue Funds – account for revenue sources that are legally restricted to expenditures for specific purposes (not including major capital projects). The following are the Town's Special Revenue Funds: Cemetery Care Fund.

The governmental funds are reported on a modified cash basis of accounting. Only current financial assets and liabilities arising from cash transactions are generally included on the fund balance sheets. The operating statements present sources and uses of available spendable financial resources during a given period. These fund financial statements use fund balance as their measure of available spendable financial resources at the end of the period.

PROPRIETARY FUNDS

Enterprise Fund

The Town's proprietary funds are comprised of the following:

- Paoli Public Works Authority – an enterprise fund that accounts for the operation of the water, sewer and sanitation activities.

For purposes of the statement of revenues, expenses and changes in fund net position, operating revenues and expenses are considered those whose cash flows are related to operating activities, while revenues and expenses related to financing, capital and investing activities are reported as non-operating or transfers and contributions.

1.C. BUDGETS AND BUDGETARY ACCOUNTING

The Town adopted a budget, under the New Budget Act, for the year ended June 30, 2023.

1.D. ASSETS, LIABILITIES, AND EQUITY

CASH AND CASH EQUIVALENTS

For the purpose of the statements of net position, balance sheets, and statement of cash flows, “cash and cash equivalents” includes all demand and savings accounts, certificates of deposit or short-term investments with an original maturity of three months or less and money market accounts.

INTERFUND RECEIVABLES AND PAYABLES

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as “due to and from other funds”. Short-term interfund loans are reported as “interfund receivables and payables”.

Long-term interfund loans (noncurrent portion) are reported as “advances from and to other funds”. Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets.

CAPITAL ASSETS

The accounting treatment of property, plant, and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund and similar discretely presented component unit operations and whether they are reported in the government-wide or fund financial statement.

Government-Wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable. Estimated historical cost was used to value the majority of the assets acquired prior to July 1, 2003. Prior to July 1, 2003, governmental funds' infrastructure assets were not capitalized. Infrastructure assets acquired since July 1, 2003, are recorded at cost.

Depreciation of all exhaustible capital assets is recorded as an allocated 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. The range of estimated useful lives by type of asset is as follows:

Buildings	40
Equipment	5-20
Vehicles	5
Utility property and improvements	10-40

Fund Financial Statements

In the fund financial statements, capital assets used 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.

RESTRICTED ASSETS

Restricted assets include cash and investments that are legally restricted as to their use. The primary restricted assets of the proprietary fund are related to promissory note trustee accounts and utility meter deposits. The primary restricted assets of the governmental funds are the sales tax amounts of the Fire Fund.

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 of notes payable.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the government-wide statements.

FUND BALANCES AND NET POSITION

Fund Balances

Governmental fund equity is classified as fund balance. Fund balance is further classified as non-spendable, restricted, committed, assigned, and unassigned. These classifications are defined as:

- *Non-spendable* – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- *Restricted* – consists of fund balance with constraints placed on the use of resources either by (a) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or (b) laws through constitutional provisions or enabling legislation.
- *Committed* - includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision-making authority. The Town's highest level of decision-making authority is made by ordinance.

- *Assigned* – includes amounts that are constrained by the Town’s intent to be used for specific purposes but are neither restricted nor committed. Assignments of fund balance may be made by Town Commission action or management decision when the Town Commission has delegated that authority. Assignments for transfers and interest income for governmental funds are made through budgetary process.
- *Unassigned* – represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the General Fund.

It is the Town’s policy to first use restricted fund balance prior to the use of the unrestricted fund balance when an expense is incurred for purposes for which both restricted and unrestricted fund balances are available. The Town’s policy for the use of unrestricted fund balance amounts require that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Net Position

Net position is displayed in three components:

- *Net investment in capital assets* – Consists of capital assets and related accounts, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowing that are attributable to the acquisition, construction or improvements of those assets.
- *Restricted net position* – Consists of net position 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 position* – All remaining net position that does not meet the definition of “restricted”.

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

Fund balances on June 30, 2023, for the governmental funds are as follows:

Fund Balances:	General Fund	Cemetery Fund	Total
Restricted for:			
Cemetery	\$ -	\$ 2,903	\$ 2,903
Total Restricted	-	2,903	2,903
Unassigned	233,867	-	233,867
Total Fund Balances	<u>\$ 233,867</u>	<u>\$ 2,903</u>	<u>\$ 236,770</u>

1.E. REVENUES, EXPENDITURES, AND EXPENSES

SALES TAX

The Town presently levies a three percent sales tax on taxable sales within the Town. Sales tax is collected by the Oklahoma Tax Commission and remitted to the Town in the month following receipt by the Tax Commission. The Tax Commission receives the sales tax approximately one month after collection by vendors.

PROGRAM REVENUES

In the Statement of Activities, revenues that are derived directly from each activity or from parties outside the Town's taxpayers are reported as program revenues. The Town has the following program revenues in each activity:

Public Safety, Fine revenue, fire protection, operating and capital grants.

All other governmental revenues are reported as general. All taxes are classified as general revenue even if restricted for a specific purpose, except for the commercial vehicle tax and the gasoline excise tax, both of which are restricted for street and alley purposes.

OPERATING REVENUE AND EXPENSES

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

1.F. INTERNAL AND INTERFUND BALANCES AND ACTIVITIES

The Town's policy is to eliminate interfund transfers and balances in the statement of activities and net position to avoid the grossing up of balances. Only the residual balances transferred between governmental and business-type activities are reported as internal transfers and internal balances then offset in the total column in the government-wide statements. Internal transfers and balances between funds are not eliminated in the fund financial statements.

1.G. USE OF ESTIMATES

The preparation of financial statements in conformity with the modified cash basis 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 (such as estimated useful lives in determining depreciation expense.) Accordingly, actual results could differ from those estimates.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

By its nature as a local government unit, the Town and its component units are subject to various federal, state, and local laws and contractual regulations. An analysis of the Town's compliance with significant laws and regulations and demonstration of its stewardship over Town resources follows;

2.A. UNINSURED AND UNCOLLATERALIZED DEPOSITS

In accordance with State law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain State or political subdivision debt obligations, surety bonds, or certain letters of credit. As reflected in Note 3.A., all deposits were fully insured or collateralized on June 30, 2023.

NOTE 3. DETAIL NOTES – TRANSACTION CLASSES/ACCOUNTS

3.A. DEPOSITS AND INVESTMENTS

Custodial Credit Risk - 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 investment policy for custodial credit risk for deposits states, "Safety of principal is the foremost objective of the investment program. All collateral pledged to secure public funds shall be valued at no more than market value. The collateralization level will be 110 % of market value of principal and accrued interest. Collateral will be held by the Town Finance Director of the Town of Paoli or by an independent third party with whom the entity has a current custodial agreement." As of June 30, 2023, all of the Town's bank balances were collateralized with securities held by the banks' trust departments but not in the Town's name or were covered by FDIC insurance.

Investment Interest Rate Risk - The Town of Paoli' investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Reserve funds may be invested with maturities exceeding three years from date of purchase if the maturity is made to coincide with the expected use of the funds. All other funds maturities will be no more than three years from date of purchase.

Investment Credit Risk - The Town's investment policy limits investments to any securities authorized in the Oklahoma State Statutes, as follows:

- a. Direct obligations of the U.S. Government, its agencies, and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal, or school district tax-supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality, or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the Securities and Exchange Commission and in which investments consist of the investments mentioned in the previous paragraphs a, b, c, and d.

As of June 30, 2023, the Town did not hold any securities with credit ratings since they are all non-negotiable time deposits.

Public trusts created under O.S. Title 60 are not subject to the above-mentioned 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 the Public Works Authority complied, in all material respects, with these investment restrictions.

Concentration of Credit Risk – The Town of Paoli' investment policy has no limit on the amount of the Town's investment portfolio that may be invested in a single financial institution, with the exception of investment in prime bankers' acceptances shall not exceed 10% of the surplus funds of the Town, and investment in prime commercial paper shall not be more than 10% of the outstanding paper of the issuing corporation.

Deposits and Investments at June 30, 2023:	Maturity				
Asset Classification:	(Months)	Credit Rating	Market Value	Cost	
Cash	N/A	N/A	\$ 443,197	\$ 443,197	
Investments:					
Certificates of Deposit	12	N/A	\$ -	\$ -	
Total Deposits and Investments:			<u>\$ 443,197</u>	<u>\$ 443,197</u>	

Reconciliation to Statement of Net Position

Governmental Activities	\$ 236,290
Business-Type Activities	<u>206,907</u>
	<u>\$ 443,197</u>

3.B. RESTRICTED REVENUES

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

Revenue Source	Legal Restrictions of Use
Sales Tax	See Note 1.E.
Gasoline Excise & Commercial Vehicle Tax	Street & Alley purposes
Grant proceeds	Grant expenditures

3.C. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2023, was as follows:

	June 30, 2022 Beginning Balance	Additions	Deletions	June 30, 2023 Ending Balance
<i>Governmental activities:</i>				
Capital assets not being depreciated:				
Land	\$ 5,000	\$ -	\$ -	\$ 5,000
Total capital assets not being depreciated	<u>5,000</u>	<u>-</u>	<u>-</u>	<u>5,000</u>
Other capital assets:				
Buildings	153,269	5,049	-	158,318
General Government	23,199	3,119	-	26,318
Fire Protection	179,353	-	-	179,353
Parks and Recreation	52,054	44,599	-	96,653
Police Department	92,701	19,931	-	112,632
Street and Alley	85,979	-	-	85,979
Total other capital assets at historical cost	<u>586,555</u>	<u>72,698</u>	<u>-</u>	<u>659,253</u>
Less accumulated depreciation for:				
Buildings	78,328	4,227	-	82,555
General Government	4,251	3,317	-	7,568
Fire Protection	163,190	6,908	-	170,098
Parks and Recreation	23,586	1,898	-	25,484
Police Department	65,195	8,289	-	73,484
Street and Alley	26,904	1,508	-	28,412
Total accumulated depreciation	<u>361,454</u>	<u>26,147</u>	<u>-</u>	<u>387,601</u>
Other capital assets, net	<u>225,101</u>	<u>46,551</u>	<u>-</u>	<u>271,652</u>
Governmental activities capital assets, net	<u>\$ 230,101</u>	<u>\$ 46,551</u>	<u>\$ -</u>	<u>\$ 276,652</u>

	June 30, 2022 Beginning Balance	Additions	Deletions	June 30, 2023 Ending Balance
<i>Business-type activities:</i>				
Capital assets not being depreciated:				
Construction in process	\$ 71,463	\$ 3,545	\$ -	\$ 75,008
Land	4,134	-	-	4,134
Total capital assets not being depreciated	75,597	3,545	-	79,142
Other capital assets:				
Buildings	21,674	-	-	21,674
Utility Equipment	305,927	-	-	305,927
Utility System	1,167,971	-	-	1,167,971
Total other capital assets at historical cost	1,495,572	-	-	1,495,572
Less accumulated depreciation for:				
Buildings	21,674	-	-	21,674
Utility Equipment	282,753	33,999	-	316,752
Utility System	646,936	-	-	646,936
Total accumulated depreciation	951,363	33,999	-	985,362
Other capital assets, net	544,209	(33,999)	-	510,210
Business-type activities capital assets, net	\$ 619,806	\$ (30,454)	\$ -	\$ 589,352

Depreciation expense was charged to functions as follows in the Statement of Activities:

Primary Government:	
General Government	\$ 7,544
Fire Protection	6,908
Parks and Recreation	1,898
Police department	8,289
Street and Alley	1,508
Total depreciation expense for governmental activities:	<u>\$ 26,147</u>

3.D. LONG TERM DEBT

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

GOVERNMENTAL ACTIVITIES

The Town had no long-term debt.

BUSINESS-TYPE ACTIVITIES

Refundable Deposits:

- Refundable deposits reported as a liability within the Statement of Net Assets are composed of the following:

Utility Deposits – \$ 19,791

CHANGES IN LONG-TERM DEBT

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

Type of Debt	Balance	Additions	Reductions	Balance	Amount
	7/1/2022			6/30/2023	Due Within One Year
Business-Type Activities:					
Refundable deposits	\$ 18,512	\$ 2,992	\$ 1,713	\$ 19,791	\$ 19,791
Total Business-Type Activities	<u>\$ 18,512</u>	<u>\$ 2,992</u>	<u>\$ 1,713</u>	<u>\$ 19,791</u>	<u>\$ 19,791</u>

NOTE 4: OTHER NOTES

4.A. PENSION PLANS

Oklahoma Firefighter's Pension and Retirement System (OFPRS):

The volunteer firemen participate only in the Oklahoma State Firefighter's Pension and Retirement System (OFPRS) which is a defined contributions plan applying only to the Town's volunteer firefighters. Eligibility to participate includes all full-time or voluntary firefighters or a participating municipality if they are hired before age 45. The State Statute gives the authority to establish contribution obligations and benefits. Vesting occurs after 10 years of service and payments begin at age 50, or after 20 years of service, whichever is later. The eligibility and benefits for distribution for volunteer firemen is 20 years credited service equal to \$5.46 per month per year of service, with a maximum of 30 years considered. The OFPRS issues a publicly available financial report that includes financial statements and required supplementary information for the fund. That report may be obtained by writing to OFPRS at 4545 North Lincoln Blvd., Suite 265, Oklahoma City, Oklahoma 73105-3414, or by calling 1-800-525-7461. The report is also available at www.ok.gov/fprs under the "GASB" tab labeled "2023-GASB 68 Accounting Supplement".

OFPRS plan members that are volunteer firefighters are not required to contribute to the plan. The Town is required by state law to contribute \$60 per year for each volunteer firefighter. The plan is funded by contributions from participants, employers, insurance premium taxes and state appropriation, as necessary.

Contributions:

2023	1,020
2022	1,980
2021	1,200

4.B. RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town manages these various risks of loss by securing commercial insurance for all risks. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Town. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

4.C. COMMITMENTS, CONTINGENCIES AND UNCERTAINTIES

Other Commitments

Federal and State Award Programs:

The Town participates in various federal and state grant and loan programs from year to year. In 2023, the Town's involvement in federal and state award programs was not significant. The programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. The Town has not been notified of any noncompliance with federal or state award requirements. Any liability or reimbursement which may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

CONTINGENCIES

Grant Program Involvement

In the normal course of operations, the Town participates in various federal or state grant/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

Litigation

The Town is a party to various legal proceedings that normally occur in the course of governmental operations. The financial statements do not include any accruals or provisions for loss contingencies that may result from these proceedings. State statutes provide for the levy of an ad valorem tax over a 3-year period by a Town "Sinking Fund" for the payment of any court assessed judgment rendered against the Town. While the outcome of the above noted proceedings cannot be predicted, due to the insurance coverage maintained by the Town and the State statute relating to judgments, the Town feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the Town.

4.D. SUBSEQUENT EVENTS

Subsequent events have been evaluated through March 19, 2024, which is the date the financial statements were available to be issued.

MICHAEL W. GREEN

Certified Public Accountant

827 W. Locust Street
STILWELL, OK. 74960
(918) 696-6298

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Town Council
Town of Paoli, Oklahoma

I 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 modified cash basis financial statements of the governmental activities, the business-type activities, each major fund of the Town of Paoli, Oklahoma (the Town), 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 my report thereon dated March 19, 2024. The report included an emphasis-of-matter paragraph related to the Town's use of a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Report on Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Town's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. I identified certain deficiencies in internal control, described in the accompanying schedule of findings as item 2023-1, that I consider to be material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion.

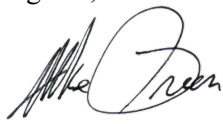
The Town's Response to Findings

The Town's response to the findings identified in my audit is described in the accompanying schedule of findings and responses. The Town's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, I 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 Town'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 Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Regards,

A handwritten signature in black ink, appearing to read "Mike Green", is positioned above the printed name.

Michael Green, CPA
March 19, 2024

TOWN OF PAOLI
Paoli, Oklahoma
SCHEDULE OF FINDINGS AND RESPONSES
For the year ended June 30, 2023

2023-1 Segregation of Duties

Criteria: The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets and reconciliation of those asset accounts is an important control activity needed to adequately protect the Town's assets and ensure accurate financial reporting.

Condition: The same individual that receives payments is also responsible for billing and adjustments and posting payments to customers' accounts. In addition, only limited oversight is provided over this individual in the conduct of their daily functions.

Cause: The Town's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

Effect or Potential Effect: Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to billing and collection activities including misappropriation of assets could occur and not be detected within a timely basis.

Recommendation: I recommend that the council consider a formal evaluation of the risks associated with this lack of segregation of duties over cash and receivables. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with the lack of segregation of duties, such as providing increased management oversight and/or an independent reconciliation of accounts.

Responsible Official's Response: The Town concurs with the recommendation, although the costs to correct this condition might exceed the benefit.

This is a repeat finding.