

TOWN OF TALIHINA, OKLAHOMA

ANNUAL FINANCIAL REPORT

JUNE 30, 2022

Ralph Osborn, CPA
P.O. Box 1015
500 South Chestnut
Bristow, OK 74010-1015

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Members of the Board of Trustees
Town of Talihina, Oklahoma

Report on the Audit of Financial Statements

Qualified and Unmodified Opinions

I have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund (except as described below), and the aggregate remaining fund information of the Town of Talihina, Oklahoma (Town), as of and for the year ended June 30, 2022, and the related notes to the financial statements which collectively comprise the Town's basic financial statements.

Qualified Opinions on Business-type Activities

In my opinion, except for the matters described in the Basis for Qualified and Unmodified Opinions section of my report, the accompanying financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the business-type activities of the Town of Talihina, as of June 30, 2022, and the respective changes in financial position thereof for the year then ended in accordance with the modified cash basis of accounting as described in Note 1.

Unmodified Opinions on Governmental Activities and Aggregate Remaining Fund Information

In my opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities and the aggregate remaining fund information of the Town of Talihina, as of June 30, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting as described in Note 1.

Basis for Qualified and Unmodified 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 Town of Talihina, Oklahoma, and to meet my other ethical responsibilities, in accordance with the relevant ethical requirements relating to my audits. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified and unmodified audit opinions.

Matter Giving Rise to Qualified Opinions on Business-type Activities

Management has not accurately reported depreciation, accordingly, has not considered the net effects of the possible variance between reported and actual depreciation. The Town has adopted the modified cash basis of accounting with one of the modifications being to include capital assets, net of accumulated depreciation. The depreciation would decrease the assets accordingly and more accurately represent capital assets. The net effects of the possible variance between reported and actual depreciation, although not reasonably determined, are presumed to be material. This matter is also discussed in finding 2022-1.

Emphasis of Matter

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

Responsibility of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the modified cash basis of accounting described in Note A; this includes determining that the modified cash basis of accounting is an acceptable basis for the presentation of the financial statements in the circumstances, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statement 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 Town of Talihina'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 opinion. 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 GAAS 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, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these 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 Town of Talihina'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 Town of Talihina'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.

Supplementary Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The combining financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the combining financial statements - modified cash basis are fairly stated, in all material respects, in relation to the basic financial statements as a whole

Other Reporting Required by Government Auditing standards

In accordance with Government Auditing Standards, I have also issued my report dated November 14, 2022, on my consideration of the Town of Talihina '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 to describe the scope of my testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on the effectiveness of the District'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 the Town of Talihina 's internal control over financial reporting and compliance.



Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
November 14, 2022

TOWN OF TALIHINA, OKLAHOMA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
JUNE 30, 2022

	Primary Government		
	Governmental Activities	Business Type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 604,694	\$ 480,462	\$ 1,085,156
Investments	57,647	-	57,647
Restricted Cash	-	326,618	326,618
Reserved Cash	-	48,986	48,986
Reserved Investments	-	10,000	10,000
Total current assets	<u>662,341</u>	<u>866,066</u>	<u>1,528,407</u>
Non-current assets:			
Capital assets			
Land	5,625	69,994	75,619
Other capital assets net of Accumulated depreciation	1,766,350	6,860,665	8,627,015
Total non-current assets	<u>1,771,975</u>	<u>6,930,659</u>	<u>8,702,634</u>
Total assets	<u>2,434,316</u>	<u>7,796,725</u>	<u>10,231,041</u>
LIABILITIES			
Current liabilities:			
Utility deposits	-	47,148	47,148
Lease obligations payable, current	9,610	-	9,610
Notes payable, current	-	60,216	60,216
Total current liabilities	<u>9,610</u>	<u>107,364</u>	<u>116,974</u>
Non-current liabilities:			
Lease obligations payable, non-current	-	-	-
Notes payable, non-current	-	2,751,943	2,751,943
Total non-current liabilities	<u>-</u>	<u>2,751,943</u>	<u>2,751,943</u>
Total liabilities	<u>9,610</u>	<u>2,859,307</u>	<u>2,868,917</u>
NET POSITION			
Capital assets, net of related debt	1,762,365	4,118,500	5,880,865
Restricted	-	326,618	326,618
Unrestricted	662,341	492,300	1,154,641
Total net position	<u>\$ 2,424,706</u>	<u>\$ 4,937,418</u>	<u>\$ 7,362,124</u>

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

TOWN OF TALIHINA, OKLAHOMA
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
YEAR ENDED JUNE 30, 2022

Function/Programs	Program Revenue				Net Revenue
	Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities					
General government	\$ 133,544	\$ 1,266	\$ 17,116	\$ 232,875	\$ 117,713
Public Safety	458,076	13,040	-	-	(445,036)
Street	6,057	-	8,621	-	2,564
Parks and Recreation	-	-	-	-	-
Airport	1,440	-	-	-	(1,440)
Cemetery	7,137	8,050	-	-	913
Total governmental activities	606,254	22,356	25,737	232,875	(325,286)
Business-type activities					
Administration	291,430	-	-	-	(291,430)
Water Treatment	81,090	638,853	-	-	557,763
Water Distribution	156,974	-	-	-	(156,974)
Sewer	80,814	216,128	-	-	135,314
Sanitation	196,412	211,414	-	-	15,002
Total business-type activities	806,720	1,066,395	-	-	259,675
Total primary government	\$ 1,412,974	\$ 1,088,751	\$ 25,737	\$ 232,875	\$ (65,611)

Changes in net position:	Primary Government		
	Governmental Activities	Business-type Activities	Total
Net (expense) revenue	\$ (325,286)	\$ 259,675	\$ (65,611)
General revenues			
Taxes			
Sales tax	420,423	-	420,423
Use tax	73,467	-	73,467
Franchise	26,821	-	26,821
Other tax	6,096	-	6,096
Donations	5,867	-	5,867
Rent	9,200	-	9,200
Sale of assets	-	-	-
Insurance proceeds	-	17,900	17,900
Miscellaneous	10,851	-	10,851
Interest	450	459	909
Transfers	150,000	(150,000)	-
Total general revenue	703,175	(131,641)	571,534
Change in net position	377,889	128,034	505,923
Net position - beginning	2,046,817	4,809,384	6,856,201
Net position - ending	\$ 2,424,706	\$ 4,937,418	\$ 7,362,124

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

TOWN OF TALIHINA, OKLAHOMA
BALANCE SHEET - GOVERNMENTAL FUNDS
MODIFIED CASH BASIS
JUNE 30, 2022

	<u>General Fund</u>	<u>Non-Major Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 496,243	\$ 108,451	\$ 604,694
Investments	<u>57,647</u>	<u>-</u>	<u>57,647</u>
TOTAL ASSETS	<u>\$ 553,890</u>	<u>\$ 108,451</u>	<u>\$ 662,341</u>
FUND BALANCES			
Unrestricted	<u>553,890</u>	<u>108,451</u>	<u>662,341</u>
TOTAL FUND BALANCES	<u>553,890</u>	<u>108,451</u>	662,341
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 553,890</u>	<u>\$ 108,451</u>	

RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS
WITH THE STATEMENT OF NET POSITION

Amounts reported 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.

Capital assets	1,830,150	
Accumulated depreciation	<u>(58,175)</u>	1,771,975

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the fund. Long-term liabilities at year end consist of:

Lease obligation	<u>(9,610)</u>	<u>(9,610)</u>
Total net position		<u>\$2,424,706</u>

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

TOWN OF TALIHINA, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2022

	General	Non-Major	Total
	Fund	Funds	Governmental Funds
Revenue			
Sales tax	\$ 420,423	\$ -	\$ 420,423
Use tax	73,467	-	73,467
Franchise tax	26,821	-	26,821
Motor vehicle taxes	-	8,621	8,621
Gasoline tax	-	2,456	2,456
Cigarette tax	3,640	-	3,640
Alcoholic beverage tax	17,116	-	17,116
Fines and forfeitures	-	11,915	11,915
Fire revenue	1,125	-	1,125
Rent	9,200	-	9,200
Donations	-	5,867	5,867
Cemetery sales	-	8,050	8,050
Licenses and permits	1,266	-	1,266
Intergovernmental	197,817	35,058	232,875
Interest	424	26	450
Other revenue	<u>4,814</u>	<u>6,037</u>	<u>10,851</u>
 Total revenue	 <u>756,113</u>	 <u>78,030</u>	 <u>834,143</u>
Expenditures			
Current			
General Government	154,067	1,672	155,739
Public Safety	480,099	5,273	485,372
Street and Alley	-	9,201	9,201
Airport	-	45,394	45,394
Cemetery	<u>-</u>	<u>7,137</u>	<u>7,137</u>
 Total expenditures	 <u>634,166</u>	 <u>68,677</u>	 <u>702,843</u>
Excess (deficiency) of revenue over expenditures	121,947	9,353	131,300
Transfer in	150,000	216	150,216
Transfer out	<u>-</u>	<u>(216)</u>	<u>(216)</u>
 Total transfers	 <u>150,000</u>	 <u>-</u>	 <u>150,000</u>
Net change in fund balance	271,947	9,353	281,300
Fund balances, beginning	<u>281,943</u>	<u>99,098</u>	<u>381,041</u>
Fund balances, ending	<u>\$ 553,890</u>	<u>\$ 108,451</u>	<u>\$ 662,341</u>

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

TOWN OF TALIHINA, OKLAHOMA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022

Net changes in fund balances - total governmental funds \$ 281,300

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those cost are shown in the combined Statement of Net Position and allocated over their estimated useful lives as annual depreciation in the Statement of Activities. This is the amount by which capital outlay exceeds depreciation outlay in the period.

Depreciation expense	-	
Capital outlay	<u>87,174</u>	87,174

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the State of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:

Capital lease obligation principal payments		<u>9,415</u>
Change in net position		<u>\$ 377,889</u>

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

TOWN OF TALIHINA, OKLAHOMA
STATEMENT OF NET POSITION - PROPRIETARY FUND
MODIFIED CASH BASIS
JUNE 30, 2022

	<u>Public Works</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 480,462
Restricted Cash and cash equivalents:	
Debt Service Reserve	151,409
Construction	21,347
Asset Replacement	153,862
Reserved Cash and cash equivalents:	
Meter reserve	48,986
Meter investments	<u>10,000</u>
Total current assets	<u>866,066</u>
Non-current assets	
Capital assets:	
Land	69,994
Capital assets, net of accumulated depreciation	<u>6,860,665</u>
Total non-current assets	<u>6,930,659</u>
Total assets	<u>7,796,725</u>
LIABILITIES	
Current liabilities:	
Utility deposits	47,148
Notes Payable, current	<u>60,216</u>
Total current liabilities	<u>107,364</u>
Non-current liabilities:	
Notes Payable, non-current	<u>2,751,943</u>
Total non-current liabilities	<u>2,751,943</u>
Total liabilities	<u>2,859,307</u>
NET POSITION	
Capital assets, net of related debt	4,118,500
Restricted cash	326,618
Unrestricted	<u>492,300</u>
Net position of business-type activities	<u>\$4,937,418</u>

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

TOWN OF TALIHINA, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND - MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2022

	<u>Public Works</u>
<u>OPERATING REVENUES</u>	
Charges for services:	
Water	\$ 638,853
Wastewater charges	216,128
Sanitation charges	192,848
Penalties	3,133
Trash fees	5,730
Surcharge	8,497
Other	<u>1,206</u>
Total operating revenues	<u>1,066,395</u>
<u>OPERATING EXPENSES</u>	
Administration	196,880
Water Treatment	81,090
Water Distribution	156,974
Wastewater	80,814
Sanitation Contractor	<u>196,412</u>
Total operating expenses	<u>712,170</u>
Operating income (loss)	<u>354,225</u>
<u>NON-OPERATING REVENUE (EXPENSES)</u>	
Other revenue	17,900
Interest income	459
Interest expense	<u>(94,550)</u>
Total non-operating revenue (expenses)	<u>(76,191)</u>
Transfers in	-
Transfers out	<u>(150,000)</u>
Total transfers	<u>(150,000)</u>
Change in net position of business type activities	278,034
Total net position, beginning	<u>4,809,384</u>
Total net position, ending	<u>\$4,937,418</u>

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

TOWN OF TALIHINA, OKLAHOMA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE - MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2022

Cash flows from operating activities	
Cash received from customers	\$1,066,395
Cash payments to employees	(196,880)
Cash payments to suppliers for goods and services	<u>(515,290)</u>
Net cash provided (used) by operating activities	<u>354,225</u>
Transfer to other funds, net	<u>(150,000)</u>
Net transfers to other funds	<u>(150,000)</u>
Cash flows from capital and related financing activities	
Other revenue	17,900
Acquisition of fixed assets	(30,664)
Interest paid on notes payable	(94,550)
Principal paid on notes payable	<u>(58,330)</u>
Net cash used for capital and related financing activities	<u>(165,644)</u>
Cash flows from investing activities	
Interest revenue	<u>459</u>
Net cash provided by investing activities	<u>459</u>
Net increase in cash and cash equivalents	39,040
Cash and cash equivalents, beginning	<u>827,026</u>
Cash and cash equivalents, ending	<u>\$ 866,066</u>
Reconciliation of operating income (loss) to net cash provided by (used) by operating activities	
Operating income (loss)	\$ 354,225
Adjustments to reconcile operating income to net cash used by operating activities:	
Depreciation	-
Changes in assets and liabilities:	
Increase/(decrease) in utility deposits	<u>-</u>
Net cash provided by operating activities	<u>\$ 354,225</u>

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

TOWN OF TALIHINA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Talihina, Oklahoma, was incorporated under the provisions of the laws of the State of Oklahoma. The Town operates under a Board of Trustees form of government and provides the following services: general government, public safety, parks and recreation, street and alley, airport, and cemetery, and public works. The basic financial statements include the departments, agencies, and other organizational units over which the Board of Trustees exercise oversight responsibility. In evaluating how to define the government for financial reporting purposes, management has considered all potential component units. The decision to include a component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 14 and No. 39. Based on the criteria Talihina Public Works Authority is the only component unit. The definition of the financial reporting entity is primarily based on the concept of financial accountability. The financial reporting entity consists of the primary government (the Town), and activities for which the primary government is financially accountable, and the activities of Talihina Public Works Authority. Financial accountability exists if a primary government appoints a voting majority of an organizations governing body, and is either able to impose its will on the organization or there is a potential for the organization to provide a specific financial benefit to, or impose specific financial burdens on, the primary government. Based upon the application of these criteria, there are no other entities to include in the Town's financial statements.

Talihina Public Works Authority was created October 7, 1962 under the provisions of Title 60, Sections 176 to 180, Oklahoma Statutes 1961. The Authority is managed by a Board of Trustees made up of members of the Town Board of Trustees. The Authority operates water, wastewater, and sanitation services for the Town of Talihina.

Government-Wide and Fund Financial Statements

The government-wide financial statements include the Statement of Net Position and the Statement of Activities. These statements report financial information for the Town as a whole excluding fiduciary activities such as employee pension plans. The primary government and component units are presented separately within the financial statements with the focus on the primary government. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and Town general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

The Statement of Activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A functional program is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include (1) charges for services which report fees, fines and forfeitures, and other charges to users of the Town's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these programs uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

TOWN OF TALIHINA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

Fund Financial Statements

Fund financial statements of the Town are provided for governmental, proprietary, and fiduciary funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns for non-major funds.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Measurement focus is a term used to describe "how" 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

In the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus, within limitations of the modified cash basis of accounting, as defined below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus, as applied to the cash basis of accounting, is used as appropriate.

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.

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental and business-like activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, Net Position/fund equity, revenues, and expenditures/expenses when they result from cash transactions. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods and services received but not yet paid, and accrued expenses and liabilities) are *not recorded* in these financial statements.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as needed.

FUND TYPES AND MAJOR FUNDS

The Town reports the following major governmental funds:

TOWN OF TALIHINA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

General Fund - The General Fund reports as the primary fund of the Town. This fund is used to account for all financial resources not reported in other funds.

Proprietary Funds - The Town reports the following major enterprise funds:

Talihina Public Works Authority - The Authority provides certain utility services for the Town.

Budgetary Accounting and Control

The Mayor submits an annual budget to the Board of Trustees in accordance with the Oklahoma Municipal Budget Act. The budget is presented to the Board of Trustees for review, and public hearings are held to address priorities and allocation of resources. In June, the Board of Trustees adopts the annual fiscal year budgets for the Town operating funds. Once approved, the Board of Trustees may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations. Public trusts submit budget and other planning documents to their respective governing bodies.

Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by sources. Expenditures are budgeted by department and class as follows: Personal services, other services and charges, supplies, capital outlay, transfers, and debt service. Budget revisions at this level are subject to final review by the Board of Trustees. The legal level of control is by department within a fund. Expenditures may not exceed appropriations at this level. Within these control levels, management may transfer appropriations without Board approval. Revisions to the budget were made during the year.

The budgets for the operating funds and proprietary fund operations are prepared on the cash and expenditures/encumbrances basis. Revenues are budgeted in the year receipt is expected; and expenditures, which include encumbrances, are budgeted in the year that the applicable purchase orders are expected to be issued. The Debt Service Fund budget is prepared to provide funding for general obligation debt service when liabilities are due for payment. The budget and actual financial statements are reported on these bases. Unencumbered appropriations for annually budgeted funds lapse at fiscal year-end.

Investments

The Town follows Governmental Accounting Standards Board (GASB) Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which requires marketable securities to be carried at fair value. The Town considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The investments reported in the financial statements consist of Certificates of Deposits.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriations, is employed in the governmental funds. Encumbrances outstanding at year end are cancelled under the modified cash basis. The encumbrance is added to the subsequent year expenses when paid.

TOWN OF TALIHINA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

Inventories and Prepaids

Inventories and prepaids are not reported under the modified cash basis of accounting.

Capital Assets, Depreciation, and Amortization

The Town's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. The Town maintains infrastructure assets records consistent with all other capital assets. Proprietary and component unit capital assets are also reported in their respective fund and combining component units financial statements. Donated assets are stated at fair value on the date donated. The Town generally capitalizes assets with cost of \$2,500 or more as purchase and construction outlay occur. The cost of normal maintenance and repairs that do not add to the assets value or materially extend useful lives are not capitalized. Capital assets, including those of component units, are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are moved from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follow:

Buildings	5-60
Improvements, other than buildings	2-50
Mobile equipment	3-40
Furniture , machinery, and equipment	3-30
Utility system	5-50

Compensated Absences

The Town does not report compensated absences under the modified cash basis of accounting.

Reserves and Designations

Reserves represent those portions of fund balance not available for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

Use of Estimates

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

TOWN OF TALIHINA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE B - CASH AND INVESTMENTS

Custodial Credit Risk

Custodial credit risk is the risk that in the event of failure of counterparty, the Town will not be able to recover the value of its deposits or investments. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Investment securities are exposed to custodial credit risk if they are uninsured, are not registered in the name of the Town, and are held by counterparty or the counterparty's trust department but not in the name of the Town. The Town's policy requires that all deposits and investments in excess of amounts covered by federal deposit insurance be fully collateralized by the entity holding the deposits or investments. As of June 30, 2022, all of the Towns deposits and investments were either covered by federal deposit insurance or were fully collateralized.

Deposits

The Town had deposits at financial institutions with a carrying amount of approximately \$1,528,407 at June 30, 2022. The bank balance of the deposits at June 30, 2022 was approximately \$1,587,328.

Credit Risk

Fixed-income securities are subject to credit risk. However, the Town did not have fixed income securities at June 30, 2022.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Board of Directors monitor's the investment performance on an ongoing basis to limit the Town's interest rate risk. As of June 30, 2022, the Town's deposits consisted of demand deposits and certificates of deposit with a maturity of 12 months or less.

TOWN OF TALIHINA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE C- CAPITAL ASSETS

The following table provides a summary of changes in capital assets:

	<u>CAPITAL ASSETS, DEPRECIATED</u>				<u>Capital Assets Not Depreciated Land</u>
	<u>Buildings</u>	<u>Infrastructure & Improvements Other Than Buildings</u>	<u>Furniture, Machinery, And Equipment</u>	<u>Totals</u>	
PRIMARY GOVERNMENT					
Governmental Activities					
Balance, June 30, 2021	\$ 342,294	\$1,039,755	\$ 355,302	\$1,737,351	\$ 5,625
Increases	-	55,298	31,876	87,174	-
Decreases	-	-	-	-	-
Balance, June 30, 2022	<u>342,294</u>	<u>1,095,053</u>	<u>387,178</u>	<u>1,824,525</u>	<u>5,625</u>
Accumulated Depreciation					
Balance, June 30, 2021	-	50,129	8,046	58,175	
Increase	-	-	-	-	
Decreases	-	-	-	-	
Balance, June 30, 2022	<u>-</u>	<u>50,129</u>	<u>8,046</u>	<u>58,175</u>	
Governmental Activities Capital Assets, Net	<u>\$ 342,294</u>	<u>\$1,044,924</u>	<u>\$ 379,132</u>	<u>\$1,766,350</u>	<u>\$ 5,625</u>
Business-type activities					
Balance, June 30, 2021	\$ 3,768	\$8,967,216	\$ 109,478	\$9,080,462	\$ 69,994
Increases	-	18,300	12,364	30,664	-
Decreases	-	-	-	-	-
Balance, June 30, 2022	<u>3,768</u>	<u>8,985,516</u>	<u>121,842</u>	<u>9,111,126</u>	<u>69,994</u>
Accumulated Depreciation					
Balance, June 30, 2021	-	2,250,461	-	2,250,461	
Increase	-	-	-	-	
Decreases	-	-	-	-	
Balance, June 30, 2022	<u>-</u>	<u>2,250,461</u>	<u>-</u>	<u>2,250,461</u>	
Business-type Activities Capital Assets, Net	<u>\$ 3,768</u>	<u>\$6,735,055</u>	<u>\$ 121,842</u>	<u>\$6,860,665</u>	<u>\$ 69,994</u>
TOTAL					
Capital Assets, Net	<u>\$ 346,062</u>	<u>\$7,779,979</u>	<u>\$ 500,974</u>	<u>\$8,627,015</u>	<u>\$ 75,619</u>

Depreciation expense was charged to functions of the primary government as follows:

GOVERNMENT ACTIVITIES	\$	-	BUSINESS-TYPE ACTIVITIES	\$	-
Public Safety			Public works		

NOTE D - PROPRIETARY FUND NOTES PAYABLE

The following is a summary of changes in long-term debt of the proprietary fund for the year ended June 30, 2022.

	<u>Payable at July 1, 2021</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2022</u>
Rural Development	\$ 2,533,989	\$ -	\$ (50,069)	\$ 2,483,920
Rural Development	<u>336,500</u>	<u>-</u>	<u>(8,261)</u>	<u>328,239</u>
	<u>\$ 2,870,489</u>	<u>\$ -</u>	<u>\$ (58,330)</u>	<u>\$ 2,812,159</u>

TOWN OF TALIHINA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

As of June 30, 2022, the long-term debt payable from business-type activities resources consisted of the following:

USDA, Rural Development loan dated July 18, 2012 in the original loan amount of \$2,963,000, interest rate of 3.5%, term of 40 years, monthly installment of \$11,497.	\$ 2,483,920
USDA, Rural Development loan dated July 18, 2012 in the original loan amount of \$410,000, interest rate of 2.0%, term of 40 years, monthly installment of \$1,243.	<u>328,239</u>
TOTAL	<u>\$ 2,812,159</u>

Debt service principal and interest requirements for outstanding bonds are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2023	\$ 60,216	\$ 92,664	\$ 152,880
2024	62,228	90,652	152,880
2025	64,310	88,570	152,880
2026	66,463	86,417	152,880
2027	68,688	84,192	152,880
2028-2032	379,607	384,793	764,400
2033-2037	447,929	316,471	764,400
2038-2042	528,862	235,538	764,400
2043-2047	624,767	139,633	764,400
2048-2052	509,089	34,633	543,722
TOTAL	<u>\$ 2,812,159</u>	<u>\$ 1,553,563</u>	<u>\$ 4,365,722</u>

The Authority paid interest in the amount of \$94,550 on its outstanding notes payable during the fiscal year.

NOTE E - CAPITAL LEASES

The Town has entered into a lease agreement as lessee for financing the acquisition of equipment. The lease agreement qualify as capital leases for accounting purposes since title transfers at the end of the lease term and it has been recorded at the present value of the future minimum lease payments. The lease contains a clause which gives Authority the ability to terminate the lease agreement at the end of each fiscal year.

Capital lease transactions for the year ended June 30, 2022 are as follows:

	<u>Payable at July 1, 2021</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2022</u>
Welch State Bank	\$ 19,025	\$ -	\$ (9,415)	\$ 9,610
	<u>\$ 19,025</u>	<u>\$ -</u>	<u>\$ (9,415)</u>	<u>\$ 9,610</u>

TOWN OF TALIHINA
TALIHINA, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

The schedule of future minimum lease payments under the capital leases and the present value of the net minimum lease payments at June 30, is as follows:

Year Ending <u>June 30</u>	Brush <u>Truck</u>	<u>Total</u>
2023	\$ 9,960	\$ 9,960
Total minimum lease payment	9,960	9,960
Less: Amount representing interest	<u>350</u>	<u>350</u>
Total	<u>\$ 9,610</u>	<u>\$ 9,610</u>

NOTE F - RESTRICTED ASSETS

The Authority has restricted cash assets for customer deposits and as a loan reserve account for a Rural Development loan. The following amounts were restricted at June 30, 2022:

Loan reserve	\$ 151,409
Capital Replacement	153,862
Construction	<u>21,347</u>
	<u>\$ 326,618</u>

The Loan Resolution Security Agreements with the USDA Rural Development requires a reserve fund to be funded at 10% of the monthly installment until the balance is equal to the annual installment amount (\$12,740 X 12 = \$152,880). At June 30, 2022, the total balance in the debt service reserve accounts was \$151,409. The reserves were not fully funded and the Authority made all of the required monthly deposits of \$1,274 per month during the year.

NOTE G - RESERVES

The Authority has reserved cash assets for customer deposits in the amount of \$48,986.

NOTE H - CONTRIBUTED CAPITAL

The Town records grants, entitlements, contributed fixed assets, or shared revenues received by its funds for operations, capital acquisition, and/or construction as contributed capital. Depreciation is recognized on assets acquired with these funds.

NOTE I - UTILITY DEPOSITS

The Authority recorded a liability of \$47,148 for customer utility deposits at June 30, 2022. The deposit is refundable upon termination of utility service.

TOWN OF TALIHINA, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2022

NOTE J - PENSION OBLIGATIONS

The Town participates in two pension plans.

Oklahoma Firefighter's Pension and Retirement System

Town of Talihina participates in two statewide, cost-sharing multiple-employer defined benefit plans on behalf of police officers and firefighters. The systems are administered by agencies of the State of Oklahoma and funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary. The following is a summary of eligibility factors, contribution methods, and benefit provisions.

Oklahoma Police and Firefighter's Pension and Retirement Systems

	<u>Oklahoma Firefighter's Pension And Retirement System</u>
Eligibility to Participate	All full-time or voluntary Firefighters of a participating Municipality hired before age 45
Authority establishing contribution obligations and benefit provisions	State Statute
Plan members' contribution rate	8% of covered payroll
Town's contribution rate	13% of covered payroll/\$60 per volunteer
Period required to vest	10 years
Benefits and eligibility for distribution (full time)	20 years credited service, 2 ½% Of final average salary multiplied By the years of credited service with A maximum of 30 years considered; If vested, at or after age 50, or After 10 but before 20 years of Credited service, with reduced benefits
Benefits and eligibility for distribution (Volunteer)	20 years credited service equal to \$5.46 per month per year of service With a maximum of 30 Years considered
Deferred retirement option	Yes, 20 years credited service with Continued service for 30 or more years
Provisions for:	
Cost of living adjustments (normal retirement)	Yes, if vested by 5/83
Death (duty, non-duty, post-retirement)	Yes
Disability	Yes
Cost of living allowances	Yes

Contributions required by State Statute:

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
2022	\$ 960	100%
2021	\$ 900	100%
2020	\$ 780	100%

TOWN OF TALIHINA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

Oklahoma Municipal Retirement Fund

The Town of Talihina maintains a defined benefit plan, Oklahoma Municipal Retirement Fund (OMRF), for employees not covered by other plans. This Plan is an agent multiple employer defined benefit pension plan.

Oklahoma Municipal Retirement Fund (OMRF)

Plan Description

The Town's defined benefit pension plan, Employee Retirement System of Talihina & Talihina Public Works Authority, Oklahoma (ERSKO) provides retirement and disability benefits and death benefits to plan members and beneficiaries. All employees are covered except firefighters and other employees covered under a state system. Effective July 1, 1998, normal retirement for covered employees was reduced from age 65 to age 60. Elected members of the Town Council shall not be considered employees solely by reason of their holding such office. Employees hired after their 60th birthday are excluded from plan membership. ERSKO is affiliated with the Oklahoma Municipal Retirement System (OMRF), an agent multiple-employer pension plan. OMRF 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 Oklahoma Municipal Retirement System, 525 Central Park Drive, Oklahoma City, Oklahoma 73105, or by calling 1-888-394-6673.

Funding policy

For the fiscal year ended June 30, 2022, employees were required to contribute 4.5% of annual compensation. The Town was required to contribute the remaining amounts necessary to fund the pension plan, using an actuarial basis. The Town's contribution rate, for the fiscal year ended June 30, 2022 was 9.6%. During the year ended June 30, 2022, the Town and the employees contributed \$51,320 and \$24,233, respectively, to the OMRF. The required contribution rate changes each year, reflecting the investment earnings of the OMRF fund and the demographic experience of the participant group. The total salary as reported on Form W-2, paid to the employee during the year is used in computing the cost.

Annual Pension Cost

The Town's annual pension cost of \$51,320 was equal to the Town's required and actual contributions. The required contribution was determined as part of the June 30, 2021 actuarial valuation. As of March 25, 2022, the unfunded actuarial liability/(surplus) of \$360,976 and costs were determined using the aggregate entry age normal cost method, considering the unfunded past service requirements to be the excess of the present value of all benefits over the present value of future normal costs and current assets. The actuarial assumptions included (a) 7.25% investment rate of return (net of administrative expenses) and (b) projected salary increase per year are based rates by age. The actuarial value of OMRF assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments by factoring in individual period adjustment, if any, for the current period and each of the nine preceding periods. The Town's unfunded actuarial accrued liability, if any, is being amortized as a level percentage of projected payrolls.

TOWN OF TALIHINA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE K - 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; and natural disasters. The Town carries commercial insurance for risk of loss, including workers' compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE L - LITIGATION

The Town is party to various legal proceedings which normally occur in governmental operations. These legal proceedings are not likely to have a material adverse impact on the affected funds of the Town. The Town retains legal council for legal proceedings. The Town may also be represented by attorneys retained by its insurance carrier.

On February 8, 2019, Leflore County Rural Water District No. 3, Pushmataha County Rural Water District No. 2, and Latimer County Rural Water District No. 3 filed a lawsuit against the Talihina Public Works Authority claiming the Authority raised their water purchase rates considerably without providing a "demonstrable increase in the cost of performance" or an "enterprise account of direct cost". The Districts and the Authority entered into an interim agreement on September 13, 2019. The matter is expected to settle based on the current ORWA report.

NOTE M - FEDERAL AND STATE GRANTS

In the normal course of operations, the Town receives grant funds from various federal and state agencies. The grant programs are subject to audit by agents of the granting authorities the purpose of which is to ensure compliance with conditions precedent to the granting of the funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

NOTE N - SUBSEQUENT EVENTS

The Town management evaluated subsequent events through November 14, 2022, the date which the financial statements were available, to determine if any items need to be disclosed.

TOWN OF TALIHINA, OKLAHOMA
 COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
 MODIFIED CASH BASIS
 JUNE 30, 2022

	<u>Street & Alley</u>	<u>Municipal Court</u>	<u>Airport</u>	<u>Police/ Fire Fundraiser</u>	<u>Cemetery</u>	<u>Perpetual Care Cemetery</u>	<u>Total Nonmajor Funds</u>
ASSETS							
Cash and cash equivalents	\$ 22,487	\$ 48,689	\$ 7,879	\$ 12,469	\$ 11,687	\$ 5,240	\$ 108,451
TOTAL ASSETS	<u>\$ 22,487</u>	<u>\$ 48,689</u>	<u>\$ 7,879</u>	<u>\$ 12,469</u>	<u>\$ 11,687</u>	<u>\$ 5,240</u>	<u>\$ 108,451</u>
 LIABILITIES AND FUND BALANCES							
FUND BALANCES							
Unrestricted	\$ 22,487	\$ 48,689	\$ 7,879	\$ 12,469	\$ 11,687	\$ 5,240	\$ 108,451
TOTAL FUND BALANCES	<u>22,487</u>	<u>48,689</u>	<u>7,879</u>	<u>12,469</u>	<u>11,687</u>	<u>5,240</u>	<u>108,451</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 22,487</u>	<u>\$ 48,689</u>	<u>\$ 7,879</u>	<u>\$ 12,469</u>	<u>\$ 11,687</u>	<u>\$ 5,240</u>	<u>\$ 108,451</u>

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

TOWN OF TALIHINA, OKLAHOMA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS
 MODIFIED CASH BASIS
 FOR THE YEAR ENDED JUNE 30, 2022

	Street & Alley	Municipal Court	Airport	Police/ Fire Fundraiser	Cemetery	Perpetual Care Cemetery	Total Nonmajor Funds
REVENUES							
Motor Vehicle tax	\$ 8,621	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,621
Gasoline tax	2,456	-	-	-	-	-	2,456
Fines and forfeitures	-	11,915	-	-	-	-	11,915
Donations	-	-	-	5,717	150	-	5,867
Intergovernmental	-	-	35,058	-	-	-	35,058
Cemetery sales	-	-	-	-	8,050	-	8,050
Miscellaneous	25	-	6,012	-	-	-	6,037
Interest	14	-	-	-	10	2	26
TOTAL REVENUES	<u>11,116</u>	<u>11,915</u>	<u>41,070</u>	<u>5,717</u>	<u>8,210</u>	<u>2</u>	<u>78,030</u>
EXPENDITURES							
Current							
General government	-	1,672	-	-	-	-	1,672
Public safety	-	-	-	5,273	-	-	5,273
Street and alley	9,201	-	-	-	-	-	9,201
Airport	-	-	45,394	-	-	-	45,394
Cemetery	-	-	-	-	7,137	-	7,137
TOTAL EXPENDITURES	<u>9,201</u>	<u>1,672</u>	<u>45,394</u>	<u>5,273</u>	<u>7,137</u>	<u>-</u>	<u>68,677</u>
Excess of revenues over (under) expenditures	<u>1,915</u>	<u>10,243</u>	<u>(4,324)</u>	<u>444</u>	<u>1,073</u>	<u>2</u>	<u>9,353</u>
Other financing sources (uses)							
Transfer in	-	-	-	-	-	216	216
Transfer out	-	-	-	-	(216)	-	(216)
Total transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(216)</u>	<u>216</u>	<u>-</u>
Net change in fund balances	<u>1,915</u>	<u>10,243</u>	<u>(4,324)</u>	<u>444</u>	<u>857</u>	<u>218</u>	<u>9,353</u>
Fund balances, beginning	<u>20,572</u>	<u>38,446</u>	<u>12,203</u>	<u>12,025</u>	<u>10,830</u>	<u>5,022</u>	<u>99,098</u>
Fund balances, ending	<u>\$ 22,487</u>	<u>\$ 48,689</u>	<u>\$ 7,879</u>	<u>\$ 12,469</u>	<u>\$ 11,687</u>	<u>\$ 5,240</u>	<u>\$ 108,451</u>

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

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 Honorable Mayor and Members of the Town Council
Town of Talihina
Talihina, 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 financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Talihina, Oklahoma, modified cash basis, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise Town of Talihina's basic financial statements and have issued my report thereon dated November 14, 2022 which included qualified opinions on fixed assets and fire fund and also included an emphasis of matter due to uncertainty about the Town's ability to continue as a going concern.

Internal Control Over Financial Reporting

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

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Accordingly, I do not express an opinion on the effectiveness of Town of Talihina, Oklahoma's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. I consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2022-1 and 2022-3 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. I consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2022-1, 2022-2, and 2022-3 to be significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Talihina, Oklahoma's financial statements are free of 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 results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as item 2022-1.

Purpose of the 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 *Governmental Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sincerely,



Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
November 14, 2022

TOWN OF TALIHINA, OKLAHOMA
TALIHINA, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

2022-1 Depreciation

Statement of Condition - The Town and Authority have not maintained an accurate record of depreciation.

Criteria - The Town has adopted the modified cash basis of accounting with one of the modifications being to include capital assets, net of accumulated depreciation.

Cause/Effect of Condition - Assets may be over or under reported due to assets not being depreciated accurately. Also, accumulated depreciation may be incorrectly estimated.

Recommendation - The Town should maintain a depreciation schedule. The Town should work with management to update and adjust their capital asset and depreciation schedules and the respective financial statement accounts for any changes in depreciation and for accumulated depreciation.

2022-2 Inventory of Fixed Assets

Statement of Condition - The Town and Authority do not have updated lists of capital assets in order to determine if assets may be missing.

Criteria - The Town is responsible for safeguarding public assets, including capital assets.

Cause/Effect of Condition - The Town or the Authority could be missing assets that are unknown to belong to the Town or the Authority.

Recommendation - The Town should take an inventory of all capital assets and develop an internal control system to update and refer to the inventory periodically in order to recognize when assets are missing.

2022-3 Unrecorded Activity

Statement of Condition- 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 A. 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 error or fraud.

Criteria - Several accounts were not included in the general ledger, including the certificates of deposits, meter deposits held in trust, debt reserves, construction funds, and asset replacement funds. These accounts had simple transfer and interest activity, however, they are not included in reports that are printed from the accounting system.

Cause/Effect of Condition - Reports provided from the system do not show a true picture of the health of the Town and the Public Works without adjustment.

Recommendation - All activity of the Town and the Authority should be recorded in the accounting system in a complete, accurate, and timely manner.