

AUDIT REPORT  
TOWN OF OAKS, OKLAHOMA  
JUNE 30, 2015



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TOWN OF OAKS, OKLAHOMA  
JUNE 30, 2015

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## INDEPENDENT AUDITOR'S REPORT

To the Town Council  
Town of Oaks, Oklahoma

### *Report on the Financial Statements*

We were engaged to audit the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the Town of Oaks, Oklahoma, as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### *Management's Responsibility 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. This includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an opinion.

### *Basis for Disclaimer of Opinion*

Previous management imposed restrictions on access to financial records, or did not maintain adequate accounting records. Previous management did not properly record transactions in the books of account; did not designate qualified individuals with the necessary expertise to be responsible and accountable for maintaining adequate, effective internal controls for the preparation, substantial accuracy and completeness of the financial statements. Current management took over the accounting function in February 2015 and from that point on has been maintaining a proper accounting system.

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As a result, we were unable to determine whether any adjustments to the amounts reported were necessary.

## *Disclaimer of Opinion*

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

## *Other Matters*

### *Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2016, on our consideration of the Town of Oaks' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in compliance with *Government Auditing Standards* in considering Town of Oaks' internal control over financial reporting and compliance.

## *Basis of Accounting*

We draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

*Kershaw CPA & Associates, P.C.*

Kershaw CPA & Associates, PC

June 17, 2016

**TOWN OF OAKS, OKLAHOMA**  
**STATEMENT OF NET POSITION - MODIFIED CASH BASIS**  
**JUNE 30, 2015**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>2015 Total</u>
<b><u>ASSETS</u></b>			
<b><u>Current Assets:</u></b>			
Cash and cash equivalents	\$ 9,185	\$ 7,932	\$ 17,117
Total Current Assets	<u>9,185</u>	<u>7,932</u>	<u>17,117</u>
<b><u>Capital Assets:</u></b>			
Restricted Debt Service Reserve	-	3,352	3,352
Other Capital Assets, Net of Accum. Depr.	58,905	1,888,355	1,947,260
Total Capital Assets	<u>58,905</u>	<u>1,891,707</u>	<u>1,950,612</u>
<b>TOTAL ASSETS</b>	<u>68,090</u>	<u>1,899,638</u>	<u>1,967,728</u>
<b><u>LIABILITIES</u></b>			
<b><u>Current Liabilities:</u></b>			
Current Portion of Long-Term Debt	-	5,878	5,878
Total Current Liabilities	<u>-</u>	<u>5,878</u>	<u>5,878</u>
<b><u>Long-Term Liabilities:</u></b>			
Notes Payable	-	309,328	309,328
Less: Current Portion of Long-Term Debt	-	(5,878)	(5,878)
Total Long-Term Liabilities	<u>-</u>	<u>303,449</u>	<u>303,449</u>
<b>TOTAL LIABILITIES</b>	<u>-</u>	<u>309,328</u>	<u>309,328</u>
<b><u>NET POSITION</u></b>			
Net investment in capital assets	58,905	1,579,027	1,641,284
Restricted for:			
Debt Service	-	-	-
Other Purposes	-	-	-
Unrestricted	<u>9,185</u>	<u>11,283</u>	<u>17,117</u>
<b>TOTAL NET POSITION</b>	<u>\$ 68,090</u>	<u>\$ 1,590,311</u>	<u>\$ 1,658,401</u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF OAKS, OKLAHOMA  
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expenses)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental activities:</b>					
General Government	\$ 25,515	\$ -	\$ -	\$ -	\$ (25,515)
Public Safety	2,145	-	-	-	(2,145)
Highways & Streets	721	-	-	-	(721)
Parks & Recreation	975	-	-	-	(975)
<b>Total Governmental Activities</b>	<b>29,357</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(29,357)</b>
<b>Business-type activities:</b>					
Sewer	16,459	32,263	-	446,923	462,727
Depreciation	-	-	-	-	-
<b>Total Business-type Activities</b>	<b>16,459</b>	<b>32,263</b>	<b>-</b>	<b>446,923</b>	<b>462,727</b>
<b>Total</b>	<b>\$ 45,815</b>	<b>\$ 32,263</b>	<b>\$ -</b>	<b>\$ 446,923</b>	<b>\$ 433,371</b>

## Changes in Net Position:

	Governmental Activities	Business-Type Activities	Total
Net (expense)/revenue	\$ (29,357)	\$ 462,727	\$ 433,371
<b>General revenues:</b>			
<b>Taxes:</b>			
Sales Tax	16,123	-	16,123
Cigar Tax	186	-	186
<b>Intergovernmental:</b>			
Alcoholic Beverage Tax	3,347	-	3,347
Gasoline Excise Tax	543	-	543
Motor Vehicle Tax	2,193	-	2,193
Miscellaneous Income	1,340	-	1,340
Interest Income	1	44	45
Transfers - Internal Activity	11,325	(11,325)	-
<b>Total general revenues &amp; transfers</b>	<b>35,059</b>	<b>(11,281)</b>	<b>23,778</b>
<b>Changes in net position</b>	<b>5,703</b>	<b>451,446</b>	<b>457,149</b>
Net position - beginning	62,357	1,138,865	1,201,222
Net position - prior year adjustment	30	-	30
<b>Net position - ending</b>	<b>\$ 68,090</b>	<b>\$ 1,590,311</b>	<b>\$ 1,658,401</b>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**TOWN OF OAKS, OKLAHOMA  
BALANCE SHEET - MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS  
JUNE 30, 2015**

	General Fund	Street & Alley Fund	Fire Dept. Fund	Parks & Recreation Fund	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 7,963	\$ 474	\$ 192	\$ 556	\$ 9,185
<b>TOTAL ASSETS</b>	<b>\$ 7,963</b>	<b>\$ 474</b>	<b>\$ 192</b>	<b>\$ 556</b>	<b>\$ 9,185</b>
<b>LIABILITIES &amp; FUND EQUITY</b>					
<b>LIABILITIES:</b>					
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ -
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>FUND BALANCES:</b>					
Nonspendable	-	-	-	-	-
Restricted	-	474	-	-	474
Committed	-	-	-	-	-
Assigned	-	-	192	556	748
Unassigned	7,963	-	-	-	7,963
<b>TOTAL FUND BALANCES</b>	<b>7,963</b>	<b>474</b>	<b>192</b>	<b>556</b>	<b>9,185</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 7,963</b>	<b>\$ 474</b>	<b>\$ 192</b>	<b>\$ 556</b>	<b>\$ 9,185</b>

**Reconciliation to Statement of Net Position:**

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

Capital assets used in governmental activities of \$363,225, net of accumulated depreciation of \$304,320, are not financial resources and, therefore, are not reported in the funds. 58,905

Some liabilities, including capital debt obligations payable, are not due and payable in the current period and therefore are not reported in the funds. -

**Net Position of Governmental Activities** **\$ 68,090**

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**TOWN OF OAKS, OKLAHOMA**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS**  
**GOVERNMENTAL FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	General Fund	Street & Alley Fund	Fire Department Fund	Parks & Recreation Fund	Total Governmental Funds
<b><u>REVENUES:</u></b>					
Taxes:					
Sales Tax	\$ 16,123	\$ -	\$ -	\$ -	\$ 16,123
Cigar Tax	186	-	-	-	186
Intergovernmental:					
Alcoholic Beverage Tax	3,347	-	-	-	3,347
Gasoline Excise Tax	-	543	-	-	543
Motor Vehicle Tax	-	2,193	-	-	2,193
Grants	-	-	-	-	-
Miscellaneous Income	1,314	-	24	3	1,340
Interest Income	1	-	0	-	1
<b>TOTAL REVENUES</b>	<b>20,972</b>	<b>2,736</b>	<b>24</b>	<b>3</b>	<b>23,734</b>
<b><u>EXPENDITURES:</u></b>					
Current:					
General Government	25,515	-	-	-	25,515
Public Safety	-	-	2,145	-	2,145
Highways & Streets	-	721	-	-	721
Parks & Recreation	-	-	-	975	975
Capital Outlay	-	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>25,515</b>	<b>721</b>	<b>2,145</b>	<b>975</b>	<b>29,357</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(4,543)</b>	<b>2,015</b>	<b>(2,122)</b>	<b>(973)</b>	<b>(5,622)</b>
<b><u>OTHER FINANCING SOURCES (USES):</u></b>					
Transfers In	15,587	220	2,262	1,072	19,140
Transfers Out	(6,053)	(1,762)	-	-	(7,815)
Capital Debt Proceeds	-	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>9,534</b>	<b>(1,542)</b>	<b>2,262</b>	<b>1,072</b>	<b>11,325</b>
<b>NET CHANGES IN FUND BALANCES</b>	<b>4,991</b>	<b>473</b>	<b>140</b>	<b>99</b>	<b>5,703</b>
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<b>2,942</b>	<b>1</b>	<b>52</b>	<b>458</b>	<b>3,452</b>
<b>FUND BALANCE - PRIOR YEAR ADJUSTMENT</b>	<b>30</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>30</b>
<b>FUND BALANCE - END OF YEAR</b>	<b>\$ 7,963</b>	<b>\$ 474</b>	<b>\$ 192</b>	<b>\$ 556</b>	<b>9,185</b>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements



**TOWN OF OAKS, OKLAHOMA**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS**  
**GOVERNMENTAL FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

## Reconciliation to Statement of Activities:

Net change in fund balances - total governmental funds	\$	5,703
 Amounts reported for governmental activities in the Statement of Activities are different because:		
 Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position:		
Capital debt obligation principal payments		-
 Issuance of new capital debt obligations is recorded as capital debt proceeds in the governmental funds, but the proceeds create long-term liabilities in the Statement of Net Position:		
Capital Debt Proceeds		-
 Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:		
Capital asset purchases capitalized		-
Depreciation expense		-
		-
<b>Change in Net Position of Governmental Activities</b>	\$	<b>5,703</b>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**TOWN OF OAKS, OKLAHOMA  
STATEMENT OF NET POSITION - MODIFIED CASH BASIS  
PROPRIETARY FUND  
JUNE 30, 2015**

	<u>Oaks Public Works Authority Enterprise Fund June 30, 2015</u>
<b><u>ASSETS</u></b>	
<b>Current Assets:</b>	
Cash and cash equivalents	\$ 7,932
<b>Total Current Assets</b>	<u>7,932</u>
<b>Noncurrent Assets:</b>	
Restricted Debt Service Reserve	3,352
Other capital assets, net of accumulated depreciation	1,888,355
<b>Total Noncurrent Assets</b>	<u>1,891,707</u>
<b>TOTAL ASSETS</b>	<u>1,899,638</u>
<b><u>LIABILITIES &amp; FUND EQUITY</u></b>	
<b>Current Liabilities:</b>	
Current Portion of Long-Term Debt	5,878
<b>Total Current Liabilities</b>	<u>5,878</u>
<b>Noncurrent Liabilities:</b>	
Notes Payable	309,328
Less: Current Portion of Long-Term Debt	<u>(5,878)</u>
<b>Total Noncurrent Liabilities</b>	<u>303,449</u>
<b>TOTAL LIABILITIES</b>	<u>309,328</u>
<b>NET POSITION:</b>	
Net investment in capital assets	1,579,027
Restricted for debt service	-
Unrestricted	11,283
<b>TOTAL NET POSITION</b>	<u><u>\$ 1,590,311</u></u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**TOWN OF OAKS, OKLAHOMA**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION - MODIFIED CASH BASIS**  
**PROPRIETARY FUND**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	<u>Oaks Public Works Authority Enterprise Fund June 30, 2015</u>
<b><u>OPERATING REVENUES:</u></b>	
Charges for Services:	
Sewer	\$ 32,263
Miscellaneous Income	-
<b>TOTAL OPERATING REVENUES</b>	<u>32,263</u>
<b><u>OPERATING EXPENSES:</u></b>	
Sewer	10,600
Depreciation	-
<b>TOTAL OPERATING EXPENSES</b>	<u>10,600</u>
<b>NET OPERATING INCOME (LOSS)</b>	<u>21,663</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Interest Income	44
Interest Expense	<u>(5,859)</u>
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<u>(5,815)</u>
<b>NET INCOME (LOSS) BEFORE CONTRIBUTIONS &amp; TRANSFERS</b>	15,848
Capital Contributions - Grants	446,923
Transfers in	2,500
Transfers out	<u>(13,825)</u>
<b>CHANGE IN NET POSITION</b>	451,446
<b>TOTAL NET POSITION - BEGINNING</b>	1,138,865
<b>TOTAL NET POSITION - PRIOR YEAR ADJUSTMENT</b>	<u>-</u>
<b>TOTAL NET POSITION - ENDING</b>	<u><u>\$ 1,590,311</u></u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**TOWN OF OAKS, OKLAHOMA  
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	<u>June 30, 2015</u>
<b><u>Cash Flows from Operating Activities:</u></b>	
Receipts from Customers	\$ 32,263
Other Cash Receipts	-
Payments to Suppliers for Goods & Services	(10,600)
Customer Deposits Received, Net of Refunded	-
	<hr/>
Net Cash Provided (Used) by Operating Activities	21,663
<b><u>Cash Flows from Non-Capital Financing Activities:</u></b>	
Transfers to other funds	(13,825)
Transfers from other funds	2,500
	<hr/>
Net Cash Provided (Used) by Non-Capital Financing Activities	(11,325)
<b><u>Cash Flows from Capital &amp; Related Financing Activities:</u></b>	
Capital grant received for construction/purchase of capital assets	446,923
Purchases of Capital Assets	(538,323)
Proceeds from sale of Capital Assets	-
Loan Proceeds received	-
Principal paid on Notes Payable	(5,769)
Interest paid	(5,859)
	<hr/>
Net Cash Provided (Used) by Capital & Related Financing Activities	(103,029)
<b>Cash Flows from Investing Activities:</b>	
(Increase) Decrease in Restricted Account	(585)
Interest Income	44
	<hr/>
Net Cash Provided (Used) by Investing Activities	(541)
Net Increase (Decrease) in Cash and Cash Equivalents	(93,231)
Cash & Cash Equivalents, Beginning of Year	101,163
Cash & Cash Equivalents, Prior Year Adjustment	-
	<hr/>
Cash & Cash Equivalents, End of Year	<u>\$ 7,932</u>
<b><u>Reconciliation of operating income (loss) to net cash provided</u></b>	
<b><u>operating activities:</u></b>	
Operating Income (Loss)	\$ 21,663
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Depreciation	-
(Increase)Decrease in Accounts Receivable	-
Increase(Decrease) in Accounts Payable	-
Increase(Decrease) in Customer Deposits	-
	<hr/>
Net Cash Provided (Used) by Operating Activities	<u>\$ 21,663</u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF OAKS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1.C, these financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) 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.

A. FINANCIAL REPORTING ENTITY

The Town of Oaks, Oklahoma operates under an elected Mayor/Council form of government. The Town provides the following services: sewer, public safety, fire protection and general administrative services. The more significant of the government's accounting policies are described below.

B. BASIS OF PRESENTATION

Government-Wide Financial Statements

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

Fund Financial Statements

The accounts of the Town are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are summarized by providing a separate set of self-balancing accounts which include its assets, liabilities, fund equity, cash receipts, cash disbursements, and certain accruals. The Town maintains a separate bank account for each fund. All bank accounts are at institutions, which are FDIC insured.

Governmental Fund Types

The General Fund is the general operating fund of the Town and always classified as a major fund. It is used to account for all financial resources not accounted for and reported in another fund. The Street and Alley Fund administers revenues from state

TOWN OF OAKS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015

vehicle taxes, gasoline excise taxes and grant income. The Fire Department receives funds from grants, local contributions, and other miscellaneous sources. The Parks & Recreation fund accounts for revenues and expenditures paid for recreational services provided.

Proprietary Fund Types

The PWA Enterprise Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises. The costs (expenses, including depreciation) of providing services, such as sewer, on a continuing basis, are financed through user charges, paid by the general public. Proprietary fund types utilize the modified cash basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. All proprietary fund capital assets are valued at estimated historical cost, or if contributed property, at its estimated fair value at time of contribution. Repairs and maintenance are recorded as expenses: renewals and betterments are capitalized.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe what transactions or events are recorded within the various financial statements. Basis of accounting refers to when and how transactions or events are recorded, regardless of the measurement focus applied.

Measurement Focus

In the government-wide State of Net Position and Statement of Activities, both governmental and business-like activities are presented used the economic resources measurement focus, within the limitations of the modified cash basis of accounting, subsequently defined in item (b).

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

- a. All governmental funds utilize a current financial resources measurement focus within the limitations of the modified cash basis of accounting. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an economic resources measurement focus within the limitations of the modified cash

TOWN OF OAKS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015

basis of accounting. The accounting objectives of this measurement focus are the determinations of operating income, changes in net position (or cost recovery), net financial position, and cash flows. All assets, deferred outflows, liabilities, and deferred inflows (whether current or noncurrent or financial or nonfinancial) associated with their activities are generally reported within the limitations of the modified cash basis of accounting.

Basis of Accounting

The financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than GAAP as established by GASB. This basis of accounting involves modifications to the cash basis of accounting to report in the statements of net position cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such reported balances include investments, capital assets and related depreciation, and short-term and long-term liabilities arising from cash transactions or events.

This modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue billed or provided services not yet collected and other 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 other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

If the Town utilized the basis of accounting recognized as generally accepted in the United States, the fund financial statements for governmental funds would use the modified accrual basis of accounting, and the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

D. FINANCIAL POSITION

Cash and cash equivalents

The statement of cash flows for proprietary fund types explains the change in cash and cash equivalents during the fiscal period. For purposes of the statement of cash flows, cash equivalents are defined as short-term, highly liquid investments that are both

TOWN OF OAKS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015

readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

Capital Assets

The Town does not maintain adequate records for property and equipment of the governmental or proprietary fund types; therefore Capital Assets are not reported as required by the modified cash basis of accounting. The capital assets that are included in the financial statements are account for as follows:

All capital assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation. The range of estimated useful lives by type of assets is as follows:

Buildings	30 years
Utility Systems	40 years
Equipment	5-10 years

On April 10, 2008, Oaks Water Works relinquished ownership of its underground sewer lines to Oaks Public Works Authority by order of the Oklahoma Department of Environmental Quality. As these assets were not purchased or constructed by the Authority historical cost is unknown, however the Authority's engineer has provided an estimated fair market value to be assigned to the assets.

Capitalization Policy

Purchases of capital items in excess of \$500.00 that increase the capacity or operation efficiency or extend the useful life of any asset are capitalized. Repairs and maintenance are expensed as incurred.

Long-Term Debt

All long-term bonds, notes, and other debt arising from cash transactions or events to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements.

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



TOWN OF OAKS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015

Net Position/Fund Balance Classifications

Net Position is classified and displayed in three components:

1. *Net investment in capital assets.* Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.
2. *Restricted.* Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. *Unrestricted.* Net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

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

Fund Balance

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the Town classifies governmental fund balances as follows:

- Non-spendable - Includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - Includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed - Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned - Includes fund balance amounts that are intended to be used for specific purposes that are

TOWN OF OAKS, OKLAHOMA  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2015

neither considered restricted or committed. Fund Balance may be assigned by the Board.

- Unassigned - Includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The Town uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Government would first use committed, then assigned and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The Government does not have a formal minimum fund balance policy.

The purposes of each major special revenue fund and revenue source is listed below:

<u>Major Special Revenue Fund</u>	<u>Revenue Source</u>
Street & Alley Fund	Commercial Vehicle Tax Gasoline Excise Tax Grant Income
Fire Department Fund	Charges for Services Grant Income
Parks & Recreation Fund	Sales Tax Transfer

E. REVENUES, EXPENDITURES AND EXPENSES

Program Revenues

In the Statement of Activities, modified cash basis 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:

General Government	Operating and capital grants
Public Safety	Operating and capital grants

All other governmental revenues are reported as general revenues. All taxes are classified as general revenue even if restricted for a specific purpose.

Operating Revenue and Expenses

Operating revenues and expenses for proprietary funds result from providing services and producing and delivering goods or services.

TOWN OF OAKS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015

They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

F. USE OF ESTIMATES

The preparation of financial statements in conformity with the modified cash basis of accounting used by the Town requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

As a local government unit, the Town is subject to various federal, state, and local laws and contractual regulations. In accordance with Government Auditing Standards, the auditor has issued a report on consideration of the Town's internal control over financial reporting and tested its compliance with certain provisions of laws, regulations, contracts, grants and other matters. That report is an integral part of an audit performed in compliance with Government Auditing Standards in considering the Town's internal control over financial reporting and compliance.

Finance-related Legal & Contractual Provisions

As required, the annual budget was prepared and filed with the State Auditor and Inspector's office.

Deficit Fund Balance or Retained Earnings

As indicated in the financial statements, there are no fund balance or retained earnings deficits for the Town for this fiscal year.

NOTE 3 - CASH AND INVESTMENTS

Custodial Credit Risk

At June 30, 2015, the Town held deposits of approximately \$20,468 at financial institutions. The Town's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the Town or by its agent in the Town's name.

Investment Interest Rate Risk

The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

TOWN OF OAKS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015

Investment Credit Risk

The Town has no policy that limits its investment choices other than the limitation of state law 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 deposits 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 SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

NOTE 4 - RESTRICTED CASH

The Authority is required to set aside into a Debt Service Reserve Account the sum of 10% of the monthly installment or \$96.90 each month until there is accumulated in that account the sum of the annual installment (\$11,628.00), after which deposits may be suspended, except to replace withdrawals. The Authority cannot withdraw funds from the reserve account without USDA approval. The required balance as of June 30, 2015 was \$2,616.30. The reserve account balance at June 30, 2015 was \$3,351.84 which complies with the requirements.

NOTE 5 - CAPITAL ASSETS

Governmental Funds

Capital asset activity for the Governmental Funds, resulting from the modified cash basis transactions, for the fiscal year ended June 30, 2015, was as follows:

TOWN OF OAKS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015

Governmental-type Activities:

	Balance 7/1/14	Additions	Deductions	Balance 6/30/15
Capital assets not being depreciated:				
Land	\$ 50,000	\$ -	\$ -	\$ 50,000
Construction in progress	-	-	-	-
Total capital assets not being depreciated	<u>50,000</u>	<u>-</u>	<u>-</u>	<u>50,000</u>
Other capital assets:				
Buildings	55,000	-	-	55,000
Equipment	8,225	-	-	8,225
Streets & Roads	250,000	-	-	250,000
Total depreciable capital assets	<u>313,225</u>	<u>-</u>	<u>-</u>	<u>313,225</u>
Less: Accum. Depreciation	<u>304,320</u>	<u>-</u>	<u>-</u>	<u>304,320</u>
Business-Type Activities				
Capital Assets, Net	<u>\$ 58,905</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 58,905</u>

The Town has not maintained records for the Governmental fund capital assets.

Proprietary Fund

Capital asset activity for the Oaks Public Works Authority, resulting from the modified cash basis transactions, for the fiscal year ended June 30, 2015, was as follows:

Business-type Activities:

	Balance 7/1/14	Additions	Deductions	Balance 6/30/15
Capital assets not being depreciated:				
Land	\$ -	\$ -	\$ -	\$ -
Construction in progress	-	-	-	-
Total capital assets not being depreciated	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other capital assets:				
Sewer System	1,350,032	538,323	-	1,888,355
Total depreciable capital assets	<u>1,350,032</u>	<u>538,323</u>	<u>-</u>	<u>1,888,355</u>
Less: Accum. Depreciation for:				
Sewer System	-	-	-	-
Total Accumulated Depreciation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Business-Type Activities				
Capital Assets, Net	<u>\$ 1,350,032</u>	<u>\$ 538,323</u>	<u>\$ -</u>	<u>\$ 1,888,355</u>

The Town has not maintained records for the PWA Fund capital assets.

NOTE 6 - LONG-TERM DEBT

The Oaks Public Works Authority (OPWA) executed a note payable to USDA Rural Development on March 28, 2013 in the principal amount of \$326,000. The Note is secured by a pledge of revenues and other resources of the OPWA and by all property now owned by the OPWA and any

TOWN OF OAKS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015

replacements. The note has a forty year term and bears interest at 1.875% with monthly installments of \$969.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2015:

	Balance at June 30, 2014	Additions	Deductions	Balance at June 30, 2015
USDA RD NOTE	\$ 315,096.78	\$ -	\$ (5,769.18)	\$ 309,327.60
Total Long-Term Debt	<u>\$ 315,096.78</u>	<u>\$ -</u>	<u>\$ (5,769.18)</u>	<u>\$ 309,327.60</u>

Debt Service Requirements to Maturity

Year Ending June 30,	Note Payable - RD 92-01		
	Principal	Interest	Total
2016	\$ 5,878	\$ 5,750	\$ 11,628
2017	5,990	5,638	11,628
2018	6,103	5,525	11,628
2019	6,218	5,410	11,628
2020	6,336	5,292	11,628
2021-2025	33,523	24,617	58,140
2026-2030	36,815	21,325	58,140
2031-2035	40,431	17,710	58,140
2036-2040	44,401	13,739	58,140
2041-2045	48,761	9,379	58,140
2046-2050	53,550	4,590	58,140
2051-2052	21,322	391	21,714
Total	<u>\$ 309,328</u>	<u>\$ 119,365</u>	<u>\$ 428,694</u>

NOTE 7 - FUND BALANCES

As described in Note 1 above, equity is classified as net position and displayed in three components:

1. Net investment in capital assets
2. Restricted
3. Unrestricted

The restricted amounts are described in Note 4 above.

TOWN OF OAKS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015

Fund Balances

Town of Oaks, Oklahoma  
Disclosure of Fund Balances Reported on Balance Sheet  
For Fiscal Year Ending June 30, 2015

	General Fund	Street & Alley Fund	Fire Dept. Fund	Parks & Recreation Fund	Total Governmental Funds
<u>FUND BALANCES:</u>					
Restricted for:					
Street & Alley	\$ -	\$ 474	\$ -	\$ -	\$ 474
Assigned to:					
Fire Fund	-	-	192	-	192
Parks & Rec.	-	-	-	556	556
Unassigned	7,963	-	-	-	7,963
Total	<u>\$ 7,963</u>	<u>\$ 474</u>	<u>\$ 192</u>	<u>\$ 556</u>	<u>\$ 9,185</u>

NOTE 8 - COMMITMENTS & CONTINGENCIES

Litigation

The financial statements do not include accrual or provision for loss contingencies resulting from litigation. Under applicable Oklahoma statutes, such judgments may become liabilities only of the Debt Service Fund and only in the year in which tax revenue is specifically assessed for payment of the claim, and only to the extent of the taxes so specifically assessed in that year.

Federally Assisted Programs

In the normal course of operations, the Town participates in various federal or state/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.

TOWN OF OAKS, OKLAHOMA  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2015

NOTE 9 - INTERFUND TRANSACTIONS

Interfund operating transfers for the year ended June 30, 2015, were as follows:

OPERATING TRANSFERS:	<u>TRANSFERS IN</u>	<u>TRANSFERS OUT</u>
GENERAL:		
Street & Alley Fund	\$ 1,762.25	\$ 220.00
Fire Department Fund	-	2,261.60
Parks & Recreation Fund	13,825.00	1,071.64
Oaks Public Works Authority	-	2,500.00
Total General Fund	<u>\$ 15,587.25</u>	<u>\$ 6,053.24</u>
SPECIAL REVENUE FUNDS:		
Street & Alley Fund:		
General Fund	\$ 220.00	\$ 1,762.25
Fire Department Fund:		
General Fund	2,261.60	-
Parks & Recreation Fund:		
General Fund	1,071.64	-
Total Special Revenue Funds	<u>\$ 3,553.24</u>	<u>\$ 1,762.25</u>
ENTERPRISE FUNDS		
Oaks Public Works Authority:		
General Fund	\$ 2,500.00	\$ 13,825.00
Street & Alley Fund	-	-
Parks & Recreation Fund	-	-
Total Enterprise Funds	<u>\$ 2,500.00</u>	<u>\$ 13,825.00</u>
	<u>\$ 21,640.49</u>	<u>\$ 21,640.49</u>

NOTE 10 - SUBSEQUENT EVENTS

The Town did not have any subsequent events through June 17, 2016, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending June 30, 2015.

NOTE 11 - CDBG GRANT INCOME

The Town of Oaks was awarded a Community Development Block Grant from the Oklahoma Department of Commerce in the amount of \$250,000.00 for the Sewer Project. As of June 30, 2015, the Town has received and expended \$247,800.00 of this grant, \$132,000.00 was received during the current year. Grant activity was recorded in the Oaks PWA Fund.



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## 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 Board of Trustees  
Town of Oaks, Oklahoma

We were engaged to audit, 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, and in accordance with Oklahoma Statutes, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Oaks, Oklahoma, as of and for the year ended June 30, 2015, and the related notes to the financial statements and the related note to the financial statements, which were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles, which collectively comprise the Town of Oaks, Oklahoma's basic financial statements, and have issued our report thereon dated June 17, 2016, which was a disclaimer of opinion because inadequate accounting records precluded us from performing sufficient audit procedures on the financial statements.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Oaks' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Oaks' internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Oaks' 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 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. 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.

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Our 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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control described in the accompanying Schedule of Findings that we consider to be significant deficiencies. Those deficiencies are listed as Item 15-01.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Oaks' financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

## Town of Oaks' Response to Findings

Town of Oaks' response to the findings identified in our audit is described in the accompanying Schedule of Findings. Town of Oaks' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Kershaw CPA & Associates, P.C.*

Kershaw CPA & Associates, PC

June 17, 2016

TOWN OF OAKS, OKLAHOMA  
SCHEDULE OF FINDINGS  
JUNE 30, 2015

INTERNAL CONTROL FINDINGS:

Item 15-01: Segregation of Duties

Criteria: A good system of internal control requires a proper segregation of duties to prevent one person from being in a position to authorize, execute, and record the same transaction.

Condition: Due to the size of the Town's major areas of internal control, that would be prevalent in a larger Town, such segregation of duties is not available for this size operation. Duties are concentrated in the hands of a few individuals, who are responsible for all phases of the accounting functions. Because of this lack of division of responsibility, internal control is determined to be weak, and in some instances, non-existent.

Cause/Effect: Due to the limited number of personnel, a breach of internal controls could occur and not be detected in the normal course of operations.

Recommendation: The Board should continue to be actively involved in the operations of the organization.

Response: The Board continues to be actively involved in the operations of the organization.

COMPLIANCE FINDINGS:

No findings noted