

**TOWN OF RED OAK, OKLAHOMA
AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2021
(WITH SUMMARIZED COMPARATIVE TOTALS
FOR THE YEAR ENDED JUNE 30, 2020)**

**TOWN OF RED OAK, OKLAHOMA
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INDEPENDENT AUDITOR'S REPORT

**To the Mayor and Board of Trustees
Town of Red Oak, Oklahoma
Red Oak, Oklahoma**

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the business-type activities of the **Town of Red Oak, Oklahoma** (the Town) as of and for the years ended **June 30, 2021**, 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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*American Institute of Certified Public Accountants

*Arkansas Society of Certified Public Accountants

*Oklahoma Society of Certified Public Accountants

*Governmental Audit Quality Center

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position the governmental activities and the business-type activities of the **Town of Red Oak, Oklahoma** as of **June 30, 2021**, and the respective changes in financial position and, where applicable, the cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1 of the financial statements.

Basis of Accounting

We 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 other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Other Matters*Required Supplementary Information*

Management has omitted the management's discussion and analysis and that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion of the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The Schedule of Findings and Questioned Costs and the Summary Schedule of Prior Year Audit Findings are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 our opinion, the Schedule of Findings and Questioned Costs and the Summary Schedule of Prior Year Audit Findings 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*, we have also issued our report dated **May 23, 2022**, on our consideration of the **Town of Red Oak, Oklahoma's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other 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 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 Red Oak, Oklahoma's** internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited the **Town of Red Oak, Oklahoma's 2020** financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated **June 1, 2021**. In our opinion, the summarized comparative information presented herein as of and for the year ended **June 30, 2020**, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Hubbs & Whitehead, CPAs
Van Buren, Arkansas

May 23, 2022

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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 Mayor and the Board of Trustees
Town of Red Oak, Oklahoma
Red Oak, Oklahoma**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the **Town of Red Oak, Oklahoma** as of and for the year ended **June 30, 2021**, and the related notes to the financial statements, which collectively comprise **Town of Red Oak, Oklahoma's** basic financial statements, and have issued our report thereon dated **May 23, 2022**.

Internal Control Over Financial Reporting

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

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. 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, as described in the accompanying Schedule of Findings and Questioned Costs as Finding #2021-01 that we consider to be a significant deficiency.

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*American Institute of Certified Public Accountants

*Arkansas Society of Certified Public Accountants

*Oklahoma Society of Certified Public Accountants

*Governmental Audit Quality Center

Compliance and Other Matters

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

Response to Findings

The **Town of Red Oak, Oklahoma's** response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The **Town of Red Oak, Oklahoma's** response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of 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.



Hubbs & Whitehead, CPAs
Van Buren, Arkansas

May 23, 2022

TOWN OF RED OAK, OKLAHOMA
STATEMENTS OF NET POSITION
MODIFIED CASH BASIS
JUNE 30, 2021

(WITH SUMMARIZED COMPARATIVE TOTALS AS OF JUNE 30, 2020)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total 2021	Total 2020
ASSETS				
Cash and investments:				
Cash	\$ 443,960	\$ 84,070	\$ 528,030	\$ 553,649
Certificates of deposit	15,585	21,426	37,011	36,848
Restricted assets:				
Restricted cash - meter deposits	-	29,807	29,807	28,750
Capital assets:				
Land	11,050	2,550	13,600	13,600
Depreciable buildings, property, equipment, and infrastructure, net of depreciation	371,079	687,168	1,058,247	869,118
Total Assets	<u>\$ 841,674</u>	<u>\$ 825,021</u>	<u>\$ 1,666,695</u>	<u>\$ 1,501,965</u>
LIABILITIES AND NET POSITION				
LIABILITIES				
Current liabilities:				
Current portion of long-term debt	\$ -	\$ 6,250	\$ 6,250	\$ 6,250
Noncurrent liabilities:				
Customer deposits	-	28,586	28,586	26,530
Long-term debt	-	3,125	3,125	9,376
Total Liabilities	<u>-</u>	<u>37,961</u>	<u>37,961</u>	<u>42,156</u>
NET POSITION				
Invested in capital assets, net of related debt	382,129	680,343	1,062,472	867,092
Restricted	-	29,807	29,807	28,750
Unrestricted	459,545	76,910	536,455	563,967
Total Net Position	<u>841,674</u>	<u>787,060</u>	<u>1,628,734</u>	<u>1,459,809</u>
Total Liabilities and Net Position	<u>\$ 841,674</u>	<u>\$ 825,021</u>	<u>\$ 1,666,695</u>	<u>\$ 1,501,965</u>

See Independent Auditor's Report and Notes to the Financial Statements.

TOWN OF RED OAK, OKLAHOMA
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
MODIFIED CASH BASIS
YEAR ENDED JUNE 30, 2021
(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2020)

	Program Revenues			2021 Net (Expense)/ Revenue	2020 Net (Expense)/ Revenue
	Expenses	Charges for Services	Operating Grants and Contributions		
GOVERNMENTAL ACTIVITIES					
General government	\$ 199,843	\$ -	\$ -	\$ (199,843)	\$ (160,620)
Street/alley & fire dept.	19,570	-	-	(19,570)	2,152
Police services	10,978	11,074	-	96	(2,096)
Library services	2,603	-	137,750	135,147	14,504
Total Governmental Activities	232,994	11,074	137,750	(84,170)	(146,060)
BUSINESS-TYPE ACTIVITIES					
Public works - water and sewer	306,184	218,886	-	(87,298)	(76,210)
Trash collections	45,605	45,225	-	(380)	(2,009)
Total Business-Type Activities	351,789	264,111	-	(87,678)	(78,219)
Total	\$ 584,783	\$ 275,185	\$ 137,750	\$ (171,848)	\$ (224,279)

	Net (Expense) Revenue and Changes in Net Position			
	Governmental Activities	Business-Type Activities	Total 2021	Total 2020
NET (EXPENSE)/REVENUE	\$ (84,170)	\$ (87,678)	\$ (171,848)	\$ (224,279)
GENERAL REVENUES AND TRANSFERS IN (OUT)				
Taxes:				
Sales, use, and cigarette tax	275,560	-	275,560	249,593
Franchise tax	12,397	-	12,397	12,614
State alcoholic beverage tax	27,564	-	27,564	20,738
Interest revenues	1,026	264	1,290	6,299
Miscellaneous	23,862	100	23,962	29,709
Transfers	(48,000)	48,000	-	-
Total General Revenues and Transfers	292,409	48,364	340,773	318,953
CHANGE IN NET POSITION	208,239	(39,314)	168,925	94,674
NET POSITION, BEGINNING OF YEAR	633,435	826,374	1,459,809	1,365,135
NET POSITION, END OF YEAR	\$ 841,674	\$ 787,060	\$ 1,628,734	\$ 1,459,809

See Independent Auditor's Report and Notes to the Financial Statements.

TOWN OF RED OAK, OKLAHOMA
STATEMENTS OF ASSETS, LIABILITIES, AND FUND BALANCES
MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2021
(WITH SUMMARIZED COMAPRATIVE TOTALS AS OF JUNE 30, 2020)

	<u>General Fund</u>	<u>Street/Alley & Fire Dept. Funds</u>	<u>2021 Total Governmental Funds</u>	<u>2020 Total Governmental Funds</u>
ASSETS				
CURRENT ASSETS				
Cash	\$ 411,503	\$ 32,457	\$ 443,960	\$ 460,705
Certificates of deposit	15,585	-	15,585	15,518
Total Current Assets	<u>427,088</u>	<u>32,457</u>	<u>459,545</u>	<u>476,223</u>
Total Assets	<u>\$ 427,088</u>	<u>\$ 32,457</u>	<u>\$ 459,545</u>	<u>\$ 476,223</u>
LIABILITIES AND FUND BALANCES				
FUND BALANCES				
Unassigned	<u>\$ 427,088</u>	<u>\$ 32,457</u>	<u>\$ 459,545</u>	<u>\$ 476,223</u>
Total Fund Balances	<u>427,088</u>	<u>32,457</u>	<u>459,545</u>	<u>476,223</u>
Total Liabilities and Fund Balances	<u>\$ 427,088</u>	<u>\$ 32,457</u>	<u>\$ 459,545</u>	<u>\$ 476,223</u>
RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENTS OF ASSETS, LIABILITIES, AND FUND BALANCE TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION				
MODIFIED CASH BASIS				
TOTAL FUND BALANCES - TOTAL GOVERNMENTAL FUNDS			<u>\$ 459,545</u>	<u>\$ 476,223</u>
CAPITAL ASSETS USED IN GOVERNMENTAL ACTIVITIES ARE NOT FINANCIAL RESOURCES AND THEREFORE ARE NOT REPORTED IN THE FUNDS, CONSISTING OF:				
Land			11,050	11,050
Buildings			167,490	38,336
Machinery and equipment			203,589	107,826
Total Capital Assets			<u>382,129</u>	<u>157,212</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES			<u>\$ 841,674</u>	<u>\$ 633,435</u>

See Independent Auditor's Report and Notes to the Financial Statements.

TOWN OF RED OAK, OKLAHOMA
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2021
(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2020)

	<u>General Fund</u>	<u>Street/Alley & Fire Dept. Funds</u>	<u>2021 Total Governmental Funds</u>	<u>2020 Total Governmental Funds</u>
REVENUES				
Taxes	\$ 310,647	\$ 4,874	\$ 315,521	\$ 282,945
Fines and forfeitures	11,074	-	11,074	6,450
Library revenue	13,631	-	13,631	16,302
Miscellaneous	23,862	-	23,862	37,844
Grants	124,119	-	124,119	-
Interest	1,026	-	1,026	2,661
Total Revenues	<u>484,359</u>	<u>4,874</u>	<u>489,233</u>	<u>346,202</u>
EXPENDITURES				
General government	270,998	-	270,998	141,340
Stree/alley & fire dept.	-	70,419	70,419	5,986
Police services	53,997	-	53,997	8,546
Library services	134,000	-	134,000	1,798
Total Expenditures	<u>458,995</u>	<u>70,419</u>	<u>529,414</u>	<u>157,670</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	25,364	(65,545)	(40,181)	188,532
OTHER FINANCING (USES)				
Operating transfers (out)	(48,000)	-	(48,000)	(48,000)
CHANGE IN FUND BALANCE	(22,636)	(65,545)	(88,181)	140,532
FUND BALANCE, BEGINNING OF YEAR	<u>506,630</u>	<u>23,266</u>	<u>529,896</u>	<u>389,364</u>
FUND BALANCE, END OF YEAR	<u>\$ 483,994</u>	<u>\$ (42,279)</u>	<u>\$ 441,715</u>	<u>\$ 529,896</u>
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE GOVERNMENT-WIDE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET POSITION				
CHANGE IN FUND BALANCE, TOTAL GOVERNMENTAL FUNDS			\$ (88,181)	\$ 140,532
Capital outlay included in the expenditures of the fund financial statements			323,562	-
Depreciation recorded in the government wide financial statements but not recorded in the fund financial statements			(27,142)	(19,280)
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES			<u>\$ 208,239</u>	<u>\$ 121,252</u>

See Independent Auditor's Report and Notes to the Financial Statements.

**TOWN OF RED OAK
STATEMENTS OF FUND NET POSITION
MODIFIED CASH BASIS
PROPRIETARY FUNDS
JUNE 30, 2021 AND 2020**

	Enterprise Fund	
	2021	2020
ASSETS		
CURRENT ASSETS		
Cash	\$ 84,070	\$ 92,945
Certificates of deposit	21,426	21,330
	<hr/>	<hr/>
Total Current Assets	105,496	114,275
	<hr/>	<hr/>
CAPITAL ASSETS		
Land	2,550	2,550
Buildings	7,600	7,600
Machinery and equipment	40,750	40,750
Water and sewer system	1,776,663	1,764,663
	<hr/>	<hr/>
	1,827,563	1,815,563
Less: accumulated depreciation	(1,137,845)	(1,090,058)
	<hr/>	<hr/>
Net Capital Assets	689,718	725,505
	<hr/>	<hr/>
NONCURRENT ASSETS		
Restricted cash - meter deposits	29,807	28,750
	<hr/>	<hr/>
Total Assets	\$ 825,021	\$ 868,530
	<hr/>	<hr/>
LIABILITIES AND NET POSITION		
LIABILITIES		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 6,250	\$ 6,250
	<hr/>	<hr/>
NONCURRENT LIABILITIES		
Customer deposits	28,586	26,530
Long-term debt	3,125	9,376
	<hr/>	<hr/>
Total Noncurrent Liabilities	31,711	35,906
	<hr/>	<hr/>
Total Liabilities	37,961	42,156
	<hr/>	<hr/>
NET POSITION		
Invested in capital assets, net of related debt	680,343	709,879
Restricted	29,807	28,750
Unrestricted	76,910	87,745
	<hr/>	<hr/>
Total Net Position	787,060	826,374
	<hr/>	<hr/>
Total Liabilities and Net Position	\$ 825,021	\$ 868,530
	<hr/>	<hr/>

See Independent Auditor's Report and Notes to the Financial Statements.

TOWN OF RED OAK, OKLAHOMA
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
MODIFIED CASH BASIS
PROPRIETARY FUNDS
YEARS ENDED JUNE 30, 2021 AND 2020

	Enterprise Fund	
	2021	2020
REVENUES		
Water revenue	\$ 183,440	\$ 170,709
Sewer revenue	35,446	33,295
Trash revenue	45,225	42,201
	<hr/>	<hr/>
Total Revenues	264,111	246,205
	<hr/>	<hr/>
OPERATING EXPENSES		
Management services - water & sewer	241,114	219,608
Management services - trash	45,605	44,210
Materials & supplies	1,438	1,477
Repairs & maintenance	2,874	-
Salaries	11,303	10,147
Other services & charges	1,668	1,464
Depreciation	47,787	47,518
	<hr/>	<hr/>
Total Operating Expenses	351,789	324,424
	<hr/>	<hr/>
(LOSS) BEFORE NON-OPERATING REVENUES, EXPENSES, & TRANSFERS	(87,678)	(78,219)
	<hr/>	<hr/>
NON-OPERATING REVENUES (EXPENSES)		
Interest income	264	3,638
Miscellaneous income	100	-
Operating transfers in	48,000	48,000
	<hr/>	<hr/>
Total Non-Operating Revenues (Expenses)	48,364	51,638
	<hr/>	<hr/>
CHANGE IN NET POSITION	(39,314)	(26,581)
	<hr/>	<hr/>
NET POSITION, BEGINNING OF YEAR	826,374	852,955
	<hr/>	<hr/>
NET POSITION, END OF YEAR	\$ 787,060	\$ 826,374
	<hr/> <hr/>	<hr/> <hr/>

See Independent Auditor's Report and Notes to the Financial Statements.

**TOWN OF RED OAK, OKLAHOMA
STATEMENTS OF CASH FLOWS
MODIFIED CASH BASIS
PROPRIETARY FUNDS
YEARS ENDED JUNE 30, 2021 AND 2020**

	Enterprise Fund	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers & service users	\$ 264,111	\$ 246,205
Cash payments to suppliers for goods & services	(292,699)	(266,759)
Cash payments to employees for services	(11,303)	(10,147)
	<u>(39,891)</u>	<u>(30,701)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of capital assets	(12,000)	(13,577)
Interest income	264	3,638
	<u>(11,736)</u>	<u>(9,939)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal paid on long-term debt	(6,250)	(6,250)
	<u>(6,250)</u>	<u>(6,250)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Meter deposits	2,059	2,200
Transfers in	48,000	48,000
	<u>50,059</u>	<u>50,200</u>
CHANGE IN CASH	(7,818)	3,310
CASH, BEGINNING OF YEAR	<u>121,695</u>	<u>118,385</u>
CASH, END OF YEAR	<u>\$ 113,877</u>	<u>\$ 121,695</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Net (loss) from operations:	\$ (87,678)	\$ (78,219)
Adjustments to reconcile net income to net cash from operating activities		
Depreciation	47,787	47,518
	<u>47,787</u>	<u>47,518</u>
Net Cash From Operating Activities	<u>\$ (39,891)</u>	<u>\$ (30,701)</u>

See Independent Auditor's Report and Notes to the Financial Statements.

TOWN OF RED OAK, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2021 AND 2020

Note 1: Summary of Significant Accounting Policies

The Town of Red Oak, Oklahoma (the Town) accounting policies and financial statement presentation conform to the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as applicable to governments. The modified cash basis of accounting is based on the recording of cash and cash equivalents and changes therein, and only recognizes revenues, expenses, assets and liabilities resulting from cash transactions adjusted for modifications that have substantial support in generally accepted accounting principles and are recommended by the Government Financial Officers Association (GFOA) small government annual financial report model. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

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

If the Town utilized the basis of accounting recognized as generally accepted by GASB, the government-wide financial statements would be presented on the accrual basis of accounting, the governmental funds would utilize the modified accrual basis of accounting, and the proprietary funds would utilize the accrual basis of accounting.

The more significant accounting policies established in the modified cash basis of accounting and used by the Town as well as a further description of departures from governmental GAAP are discussed below.

Reporting entity

The Town, for financial reporting purposes, includes all funds and authorities over which the Town council has financial accountability as defined by GASB-14 and GASB-39. Financial accountability was determined on the basis of the Town's ability to significantly influence operations, select the governing authority, and participate in fiscal management and scope of public service. On this basis, the reporting entity of the Town includes all its funds as well as the funds and accounts of the blended component unit; the Red Oak Public Works Authority (ROPWA).

The ROPWA is a public trust created under the authority of and pursuant to the provisions of Title 60, Oklahoma Statutes 1961, and Sections 176 to 180, for the use and benefit of the Town. The trust has as its purpose to budget, construct, plan, establish, install, enlarge, improve, equip, operate, control and regulate facilities, whether water, sewer, gas, electric or other forms or types of public and municipal services within and without the corporate boundaries of the Town. The ROPWA is governed by the trustees of the Town.

**TOWN OF RED OAK, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2021 AND 2020**

Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for the fiduciary funds of which the Town has none. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are generally organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. The funds of the financial reporting entity are described below:

Governmental Funds:

General Fund - The general fund is the primary operating fund of the Town and always classified as a major fund. This fund accounts for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Fund - These funds are used to account for the revenues derived from specific taxes, governmental grants, or other revenue sources which are designated to finance particular functions or activities of the Town. The Town's special revenue funds consist of the following funds: Street & Alley and Fire.

Proprietary Fund Types:

Enterprise Fund - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The Town's Enterprise fund consists of the ROPWA.

Measurement Focus and Basis of Accounting

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.

TOWN OF RED OAK, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2021 AND 2020

The government-wide financial statements and proprietary funds are reported using the economic resources measurement focus and the modified cash basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met. The Town has elected to report its financial statements on the modified cash basis.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when received. Revenues are considered to be available when they are collectible with the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when paid. Capital assets and long-term debt are not reported in governmental fund financial statements because they do not involve current financial resources.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the accounting period. Actual results could differ from those estimates.

Budgetary Process

Annually a legally adopted budget of cash balances only is prepared for the governmental and proprietary funds. The budgets are formally approved by the Board of Trustees before filing with the State of Oklahoma. Actual expenditures within the General Fund may not legally exceed the adopted budget appropriations at the object category level within the department of a fund.

Assets, Liabilities, and Equity

Cash and Cash Equivalents:

For the purpose of the Statement of Net Position, and the proprietary fund Statement of Cash Flows, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit with an original maturity of three months or less.

Certificates of Deposit:

Certificates of deposit consist of long-term certificates of deposits and are stated at cost, which approximates market unless otherwise indicated with a maturity at the time of purchase of more than three months.

Restricted Assets:

Under the terms of the bond indentures, the ROPWA must maintain certain "funds". These are not funds in the sense of fiscal and accounting entities with self-balancing sets of accounts; they merely represent mandatory asset segregation. The primary restricted assets are related to bond trustee accounts and utility meter deposits.

**TOWN OF RED OAK, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2021 AND 2020**

Capital Assets:

The accounting treatment over property, plant and equipment (capital assets) depends on whether the assets are used in general governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

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. It is the policy of the Town to capitalize all assets with a cost of \$500 or greater.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the asset's estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	20 Years
Machinery and Equipment	5 – 10 Years
Infrastructure	40 Years

Fund Financial Statements

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

Long-term Debt:

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements. All long-term debt to be repaid from governmental and business type resources are reported as liabilities in the government-wide statements. The long-term debt currently consists of bond and notes payable by the ROPWA.

Equity Classifications:

Government-wide Statements

Equity is classified as net position and displayed in the following components:

- Invested in Capital Assets, Net of Related Debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- Restricted - Consists of net assets with constraints placed on the use either by external groups such as creditors, grantors, contributions, or laws or regulations of other governments; or law through constitutional provisions or enabling legislation.
- Unrestricted - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

**TOWN OF RED OAK, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2021 AND 2020**

Governmental fund equity is classified as fund balance. Fund Balance is further classified as follows:

- *Nonspendable fund balance* represents amounts that cannot be spend because they are either not in spendable form or are legally or contractually required to be maintained intact.
- *Restricted fund balance* represents amounts that are constrained either externally by creditors (such as debt covenants), granters, contributors or laws or regulations of other governments; or by law, through constitutional provisions or enabling legislation.
- *Committed fund balance* represents amount that are useable only for specific purposes by formal action of the government's highest level of decision-making authority. Such amounts are not subject to legal enforceability (like restricted amounts), but cannot be used for any other purpose unless the government removes or changes the limitation by taking action similar to that which imposed the commitment. The Town Ordinance is the highest level of decision-making authority of the Town.
- *Assigned fund balance* represents amounts that are intended to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by the governing body itself, or a subordinated high-level body or official who the governing body has delegated the authority to assign amounts to be used for specific purposes. Assigned fund balances includes all remaining spendable amounts (except negative balances) that are reported in governmental funds other than the general fund, that are neither restricted nor committed, and amounts in the general fund that are intended to be used for specific purpose in accordance with the provisions of the standard.
- *Unassigned fund balance* is the residual classification for the general fund. It represents the amounts that have not been assigned to other funds, and that have not been restricted, committed, or assigned to specific purposes within the general fund.

Proprietary fund equity is classified the same as in the government-wide statements.

Revenues, Expenditures, and Expenses

Sales Tax:

The Town is currently receiving sales tax on each dollar. This is deposited into the general fund for the purpose of paying the operation and maintenance costs incurred by the Town.

Operating Revenues and Expenses:

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

Expenditures/Expenses:

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

**TOWN OF RED OAK, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2021 AND 2020**

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

Governmental Funds – by character: current and capital outlay
Proprietary Fund – by operating and non-operating

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

Interfund Transfers

Interfund receivables and payables arise from interfund transactions and are recorded by all programs affected in the period in which the transactions are executed. These receivables and payables within the same fund type are eliminated for presentation of the financial statements in the government-wide statements. Net receivables and payables between governmental activities and business-type activities are reported as internal balances and internal transfers.

Fair Value of Financial Instruments

The Town's financial instruments include cash and cash equivalents and certificates of deposit. The Town's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying statement of net position. The carrying amount of these financial instruments approximate fair value because of the short maturity of these investments.

Current Accounting Developments

In June 2017, the GASB issued Statement Number 87 (GASB 87), Leases – effective for periods beginning after December 15, 2023. GASB 87 is intended to better meet the information needs of financial statement users by improving accounting and financial reporting for leases for governments.

In June 2018, the GASB issued Statement Number 89 (GASB 89), Accounting for Interest Cost Incurred before the End of a Construction Period – effective for fiscal years beginning after December 15, 2019. GASB 89 will enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplify accounting for interest cost incurred before the end of a construction period.

Management of the Town implemented both statements during the years ended June 30, 2020 and concluded that the implementation of these statements does not significantly impact the financial statements of the Town.

Subsequent Events

Subsequent events are evaluated through May 23, 2022, the date the financial statements were available to be issued.

**TOWN OF RED OAK, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2021 AND 2020**

Note 2: Cash, Restricted Cash, and Certificates of Deposit

The Town is governed by the deposit and investment limitations of state law. The deposits consist of the following as of June 30, 2021 and 2020, respectively:

	<u>2021</u>		<u>2020</u>	
	<u>Bank Value</u>	<u>Carrying Value</u>	<u>Bank Value</u>	<u>Carrying Value</u>
Cash	\$ 528,229	\$ 528,030	\$ 552,240	\$ 553,649
Restricted cash - meter deposits	29,807	29,807	27,658	28,750
Certificates of deposit	<u>37,011</u>	<u>37,011</u>	<u>36,848</u>	<u>36,848</u>
Total	<u>\$ 595,047</u>	<u>\$ 594,848</u>	<u>\$ 616,746</u>	<u>\$ 619,247</u>

Custodial Credit Risk - State law governs the requirements for managing custodial credit risk. Such law requires uninsured deposits to be secured with collateral having market value at least equal to the amount of uninsured deposits. Deposits in financial institutions, reported as components of cash, cash equivalents, and investments, had bank balances of \$595,047 and \$616,746 at June 30, 2021 and 2020, respectively, which were fully insured by depository insurance or secured with collateral held by the Town's agent in its name. All investments, evidenced by individual securities, are registered in the name of the Town or its component unit.

Interest Rate Risk- The Town has no formal investment policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Nonnegotiable certificates of deposit are not subject to interest rate risk, therefore their maturity dates are not provided.

Investment Credit Risk - The Town as no investment policy which limits its investment choices other than the limitation of state laws.

Concentration of Investment Credit Risk - The Town places no limit on the amount it may invest in any one issuer. At June 30, 2021, the Town had limited concentration of credit risk because the investments consist of Certificates of Deposit.

**TOWN OF RED OAK, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2021 AND 2020**

Note 3: Capital Assets

Capital assets as of June 30, 2021 and 2020 were as follows:

Governmental Activities:	2021	2020
Land	\$ 11,050	\$ 11,050
Buildings	246,466	113,744
Machinery and equipment	424,965	310,735
	<u>682,481</u>	<u>435,529</u>
Less: accumulated depreciation		
Buildings	(78,977)	(75,408)
Machinery and equipment	(221,375)	(202,908)
	<u>(300,352)</u>	<u>(278,316)</u>
 Net Capital Assets, Governmental Activities	 <u>382,129</u>	 <u>157,213</u>
 Business-type Activities:		
Land	2,550	2,550
Buildings	7,600	7,600
Machinery and equipment	40,750	40,750
Water and sewer system	1,776,663	1,764,663
	<u>1,827,563</u>	<u>1,815,563</u>
Less: accumulated depreciation		
Buildings	(7,016)	(6,821)
Water and sewer system	(1,095,179)	(1,050,987)
Machinery and equipment	(35,650)	(32,250)
	<u>(1,137,845)</u>	<u>(1,090,058)</u>
 Net Capital Assets, Business-type Activities	 <u>689,718</u>	 <u>725,505</u>
 Total Net Capital Assets	 <u><u>\$ 1,071,847</u></u>	 <u><u>\$ 882,718</u></u>

Depreciation expense for the years ended June 30, 2021 and 2020 were \$74,929 and \$66,798, respectively.

**TOWN OF RED OAK, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2021 AND 2020**

Note 4: Long-Term Debt

Long-term debt consisted of the following as of June 30, 2021 and 2020, respectively:

	2021	2020
Note payable to the Oklahoma Department of Commerce, due in monthly installments of \$520.83, bearing no interest, maturing June 30, 2023	\$ 9,375	\$ 15,626
Less: current portion of long-term debt	(6,250)	(6,250)
Long-term debt	\$ 3,125	\$ 9,376

Maturities of long-term debt are as follows:

Year ended June 30,	Principal
2022	\$ 6,250
2023	3,125
	\$ 9,375

Note 5: Contingencies

The Town is subject to possible examinations by federal regulators who determine compliance with terms, conditions, laws and regulations governing grants given to the Town in the current and prior years. These examinations may result in required refunds by the entity to the federal grantors and/or program beneficiaries.

Note 6: 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 for which the Town purchases commercial insurance. Management believes this coverage is sufficient to preclude any significant uninsured losses to the Town.

SUPPLEMENTARY INFORMATION

TOWN OF RED OAK, OKLAHOMA
SCHEDULE 1 - BUDGETARY COMPARISON, GENERAL FUND
YEAR ENDED JUNE 30, 2021

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Taxes	\$ 330,000	\$ 310,647	\$ 19,353
Fines and forfeitures	10,000	11,074	(1,074)
Library revenue	10,000	13,631	(3,631)
Miscellaneous	27,000	23,862	3,138
Grants	125,000	124,119	881
Interest	1,000	1,026	(26)
	<u>503,000</u>	<u>484,359</u>	<u>18,641</u>
EXPENDITURES			
General government	270,000	270,998	(998)
Police services	50,000	53,997	(3,997)
Library services	135,000	134,000	1,000
	<u>455,000</u>	<u>458,995</u>	<u>(3,995)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	48,000	25,364	22,636
OTHER FINANCING (USES)			
Operating transfers (out)	<u>(48,000)</u>	<u>(48,000)</u>	<u>-</u>
CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ (22,636)</u>	<u>\$ 22,636</u>

See Independent Auditor's Report.

TOWN OF RED OAK, OKLAHOMA
SCHEDULE 1 - BUDGETARY COMPARISON, STREET, ALLEY, AND FIRE
YEAR ENDED JUNE 30, 2021

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Taxes	\$ 5,000	\$ 4,874	\$ 126
EXPENDITURES			
Stree/alley & fire dept.	71,000	70,419	581
OTHER FINANCING SOURCES			
Transfers from General Fund	<u>66,000</u>	<u>-</u>	<u>66,000</u>
CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ (65,545)</u>	<u>\$ 65,545</u>

See Independent Auditor's Report.

**TOWN OF RED OAK, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2021**

2021-01: Segregation of Duties

Criteria: The Town should have a sufficient and properly designed internal control structure. This structure relies greatly on a proper segregation of duties between individuals. In the perfect situation, duties relating to asset custody and initiating, authorizing, recording, processing, and reporting financial data would be segregated to provide reasonable assurance that a misstatement of the Town's financial statements which is more than inconsequential would be prevented or detected and corrected.

Condition: The Town has two administrative employees and as a result does not have the personnel to assign duties and responsibilities in such a way which would segregate duties as mentioned above. The limited number of employees results in an inadequate overall internal control structure design. Specific areas affected are described below:

Cash and cash transactions – The two administrative employees, the Town Clerk and the Utility Clerk, control the initiating, recording, processing, and reporting of cash transactions. The Town's controls over cash include a monthly bank reconciliation prepared by the administrative employees.

Revenues and receivables – The Town Clerk has sole control over the processing of revenues and receivables. These revenues and receivables are recorded on a monthly basis.

Expenditures/Expenses and Accounts Payable – The Town Clerk controls the initiating, recording, processing, and reporting of expenditures/expenses. The Town requires dual signatures on all checks written, signed by the Town Clerk and the Mayor. Purchase orders and invoices are reviewed at the time of signature by all Council members; however, the Town Clerk maintains control over the checks before and after signature. The Town Clerk determines the account classification for expenditures.

Cause: Due to cost restrictions, the Town has a limited staff. Resources are not currently available for additional employees for the appropriate segregation of duties.

Effect: The lack of segregation of duties related to controls as stated above are significant deficiencies that could result in the likelihood that a material misstatement of the financial statements due to either error or fraud may occur and not be prevented or detected.

Recommendation: As the Town has limited resources available, at the current time, additional segregation of duties is not financially feasible. The Town should review its procedures and controls to determine additional controls which can be implemented in order to achieve the control objectives related to segregation of duties. The cost effectiveness of these actions should be considered in the implementation of additional controls.

Response from Management: The Town is a small governmental entity. Management is aware of the limitations in the segregation of duties but at the current time with the current level of revenues, it is not feasible to increase the segregation of duties.

**TOWN OF RED OAK, OKLAHOMA
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2020**

Finding #2020-01: Segregation of Duties was restated.