

THE TOWN OF OAKS, OKLAHOMA

AUDITOR'S REPORT  
AND  
FINANCIAL STATEMENTS  
(Revised)

JUNE 30, 2012

JUSTIN W. COWAN

CERTIFIED PUBLIC ACCOUNTANT

LOCUST GROVE, OKLAHOMA

TOWN OF OAKS, OKLAHOMA  
 AUDITED BASIC FINANCIAL STATEMENTS  
 JUNE 30, 2012

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CERTIFIED PUBLIC ACCOUNTANT

Locust Grove, OK

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**INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Town Of Oaks

I have audited the accompanying financial statements of the business-type activities of Town Of Oaks, as of and for the year ended June 30, 2012 which comprise the Town's basic financial statements. These financial statements are the responsibility of the Town's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. These standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Town Of Oaks as of June 30, 2012, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued a report dated September 27, 2012 on my consideration of Town Of Oaks' internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and 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 accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

My audit was performed for the purpose of forming an opinion on the general purpose financial statements of Town Of Oaks taken as a whole. The accompanying Schedule of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and are not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

The information contained in the Statistical Section of this report is presented for the purpose of additional analysis. This information has not been audited by me, and accordingly, I express no opinion on this information.

The Management's Discussion and Analysis on pages two through four is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquires of management regarding methods of measurement and presentation of the required supplemental information. However, I did not audit the information and express no opinion on it.

Justin W. Cowan  
Certified Public Accountant

September 27, 2012

TOWN OF OAKS, OKLAHOMA  
STATEMENT OF NET ASSETS  
JUNE 30, 2012

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current Assets:			
Cash and Demand Deposits	4,746.73	3,256.71	8,003.44
Investments	0	0	0
Accounts Receivable (Net)	0	1,750.00	1,750.00
Internal Balances	0	0	0
Grants Receivable	0	0	0
<b>Total Current Assets</b>	4,746.73	5,006.71	9,753.44
Capital Assets			
Restricted Savings	0	1,568.72	1,568.72
Depreciable Property & Equipment	313,225.00	771,100.00	1,084,325.00
Less Accumulated Depreciation	(304,320.00)	0	(304,320.00)
Land	<u>50,000.00</u>	<u>0</u>	<u>50,000.00</u>
<b>Total Capital Assets</b>	58,905.00	772,668.72	831,573.72
<b>TOTAL ASSETS</b>	63,651.73	777,675.43	841,327.16
LIABILITIES			
Current Liabilities:			
Accounts Payable	0	1,240.46	1,240.46
Due to Town of Oaks	0	<u>0</u>	<u>0</u>
<b>Total Current Liabilities</b>	0	1,240.46	1,240.46
<b>Total Non-current Liabilities</b>	0	0	0
<b>TOTAL LIABILITIES</b>	0	1,240.46	1,240.46
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	58,905.00	771,100.00	830,005.00
Restricted for Debt & Deposits	0	1,568.72	1,568.72
Unrestricted	<u>5,700.19</u>	<u>3,766.25</u>	<u>9,466.44</u>
<b>TOTAL NET ASSETS</b>	64,605.19	776,434.97	841,040.16

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

TOWN OF OAKS, OKLAHOMA  
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2012

Functions/Programs	Program Revenues				Net (Expense) Revenues and Changes in Net Assets		Total Activities
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Governmental Activities:							
General Government	21,447.43	0		0	(28,447.43)		(28,447.43)
Public Safety and Parks	7,528.57	0		0	(7,528.57)		(7,528.57)
Total Governmental Activities	35,976.00	0		0	(35,976.00)		(35,976.00)
Business-type Activities:							
Sewer	25,926.84	24,227.00		206,194.48		204,494.64	204,494.64
Total Business-type Activities	25,926.84	24,227.00		206,194.48		204,494.64	204,494.64
Total All Activities	61,902.84	24,227.00		206,194.48	(32,249.65)	204,494.64	168,518.64

General Fund Revenues:	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Taxes:			
Sales and Use Taxes Levied for General Purposes	18,979.46		18,979.46
Investment Income	0.21		0.21
Grants	0		0
Miscellaneous	2,702.74		2,702.74
Donated Capital	0		0
Transfers	0		0
Total General Fund Revenues and Transfers	21,682.41		21,682.41
Street & Alley, Parks, & F. Dept. Revenues:			
Sales and Use Taxes	7,799.66		7,799.66
Miscellaneous	0.00		0.00
Total Safety and Parks Revenues	7,799.66		7,799.66
Change in Net Assets	(6,493.93)	204,494.64	198,000.71
Beginning Net Assets	71,099.12	571,940.33	643,039.45
Ending Net Assets	64,605.19	776,434.97	841,040.16

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

TOWN OF OAKS, OKLAHOMA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2012

	General Fund	Street and Alley, Parks and Fire Dept. Fund	Total Governmental Funds
<b>ASSETS:</b>			
Cash and Demand Deposits	4,490.75	255.98	9,104.10
Investments	0	0	0
To Be Provided for Debt	0	0	0
Due From Other Funds (Net)	0	0	0
Receivables	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL ASSETS</b>	<b>4,490.75</b>	<b>255.98</b>	<b>9,104.10</b>
<b>LIABILITIES:</b>			
Accounts Payable	0	0	0
Current Portion of Debt	0	0	0
Due to Other Funds	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL LIABILITIES</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>FUND BALANCES:</b>			
General Fund	4,490.75	255.98	4,746.73
Other Funds	<u>0</u>	<u>0</u>	<u>0.00</u>
<b>TOTAL FUND BALANCES</b>	<b>4,490.75</b>	<b>255.98</b>	<b>4,746.73</b>
<b>TOTAL LIABILITIES &amp; FUND BALANCES</b>	<b>4,490.75</b>	<b>255.98</b>	<b>4,746.73</b>

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

TOWN OF OAKS, OKLAHOMA  
RECONCILIATION OF BALANCE SHEET – GOVERNMENTAL FUNDS  
WITH THE STATEMENT OF NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2012

Total Fund Balance		\$ 4,746.73
Accounts reported in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources And therefore are not reported as assets in the governmental funds.		
Capital assets	59,858.46	
Accumulated depreciation	<u>0</u>	<u>59,858.46</u>
Total net assets		\$ 64,605.19

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

TOWN OF OAKS, OKLAHOMA  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012

	General Fund	Street and Alley, Parks, and Fire Dept. Fund	Total Governmental Funds
REVENUES:			
Taxes	18,979.46	7,799.66	26,779.12
Intergovernmental	0		0
Charges for Services	0		0
Interest	0.21		0.21
Other	2,702.74		2,702.74
Grants & Donations	<u>0</u>		<u>0</u>
TOTAL REVENUE	21,682.41	7,799.66	29,482.07
EXPENDITURES:			
General Government	31,917.92	4,058.08	32,249.65
Other Expenses	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL EXPENDITURES	31,917.92	4,058.08	32,249.65
REVENUES OVER (UNDER) EXPENDITURES	(10,235.51)	3,741.58	(6,499.93)
OTHER FINANCING SOURCES (USES)			
Transfers In (Out)	0		0
Sales Tax Transfers	0		0
TOTAL OTHER FINANCING SOURCES (USES)	0		0
NET CHANGE IN FUND BALANCES	(10,235.51)		(6,752.91)
BEGINNING FUND BALANCE	<u>11,240.66</u>		<u>11,240.66</u>
ENDING FUND BALANCE	1,005.15	3,741.58	4,746.73

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



TOWN OF OAKS, OKLAHOMA  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2012

Net changes in fund balances – total governmental funds		\$ (6,752.91)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the combined statement of net assets and allocated over their estimated useful lives as annual depreciation in the statement of activities. This is the amount by which capital outlay exceeds depreciation outlay in the period.		
Depreciation Expense	0	
Change in Net Assets		\$ (4,170.04)

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

TOWN OF OAKS, OKLAHOMA  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2012

	Oaks Public Works Authority
<b>ASSETS</b>	
Current Assets:	
Cash and Demand Deposits	3,256.71
Accounts and Other Receivables (Net)	<u>1,750.00</u>
Total Current Assets	5,006.71
Non-current Assets:	
Land	0
Restricted Savings - Debt Service Reserve	1,568.72
Depreciable Property and Equipment	771,100.00
Less Accumulated Depreciation	<u>(0)</u>
Total Non-current Assets	772,668.72
<b>TOTAL ASSETS</b>	<b>777,675.43</b>
<b>LIABILITIES AND NET ASSETS</b>	
Current Liabilities:	
Accounts Payable	1,240.46
Current Portion of Notes Payable	<u>0</u>
Total Current Liabilities	1,240.46
Non-current Liabilities:	
Notes Payable, less Current Portion	<u>0</u>
Total Non-current Liabilities	0
<b>TOTAL Liabilities</b>	<b>1,240.46</b>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	771,100.00
Restricted for Debt Service	1,568.72
Unrestricted	<u>3,766.25</u>
Total Net Assets	776,434.97

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

TOWN OF OAKS, OKLAHOMA  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2012

	Oaks Public Works Authority
<b>OPERATING REVENUES</b>	
Sewer	24,227.00
Other Income	<u>0.00</u>
Total Operating Revenues	24,227.00
<b>OPERATING EXPENSES</b>	
Sewer System Expenses	<u>25,926.84</u>
Total Operating Expenses	25,926.84
Operating Income (Loss)	(1,699.84)
Non-operating Revenues (Expenses)	
Donated Capital	0.00
Grants	206,194.48
Interest Expense	<u>0</u>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	204,494.64
<b>TRANSFERS IN (OUT)</b>	<u>0</u>
<b>NET INCOME (LOSS)</b>	204,494.64
<b>NET ASSETS BEGINNING OF YEAR</b>	<u>571,940.33</u>
<b>NET ASSETS END OF YEAR</b>	<u>776,434.97</u>

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

TOWN OF OAKS, OKLAHOMA  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2012

	Oaks Public Works Authority
Cash Flows From Operations:	
Cash Received From:	
Customers	23,227.00
Cash Payments for:	
Goods and Services	<u>26,426.84</u>
Net Cash Provided From Operations	(3,199.84)
Cash Flows From Capital Financing Activities:	
Loan Reductions	(0)
Transfers Net	0
Asset Increases	<u>(204,850.00)</u>
Net Cash From Capital Financing Activities	(204,850.00)
Cash Flows From Investing Activities:	
Grants Received	206,194.48
Interest Paid	0
Donated Capital	<u>0.00</u>
Net Cash From Investing Activities	206,194.48
Net Increase (Decrease) in Cash	(1,855.36)
Beginning Cash	<u>6,680.79</u>
Ending Cash	4,825.43
Reconciliation of Income From Operations to Net Cash From Operations:	
Operating Income (Loss)	(1,699.84)
Adjustments to Income From Operations:	
Depreciation	0
Change in Assets and Liabilities:	
(Increase) Decrease in Receivables	(1,000.00)
(Increase) Decrease in Prepaid Expenses	0
Increase (Decrease) in Payables	<u>(500.00)</u>
Net Cash Provided by Operations	(3,199.84)

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

TOWN OF OAKS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
FOR YEAR ENDED JUNE 30, 2012

The accounting methods and procedures adopted by the Town of Oaks, Oklahoma, conform to generally accepted accounting principles as applied to governmental entities. The following notes to the financial statements are an integral part of the Town's Basic Financial Statements.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Town complies with generally accepted accounting principles (GAAP), which includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for proprietary funds, Financial Accounting Standards (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless they conflict with or contradict GASB pronouncements, in which case, GASB prevails. Although the Town has the option to apply FASB pronouncements issued after that date to its business-type activities, it has chosen not to do so.

**1A. FINANCIAL REPORTING ENTITY** The Town of Oaks operates under an elected Mayor/Council form of government. The Town's major operations include public safety, fire protection, and general administrative services. As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the Town of Oaks (the primary government) and its component unit. The component unit discussed below is included in the Town's reporting entity because of the significance of its operation and financial relationships with the Town.

**1B. COMPONENT UNIT** In conformity with generally accepted accounting principles, the financial statements of the Oaks Public Works Authority have been included in the financial reporting entity as a blended component unit, as both entities have the same board of trustees.

**1C. BASIC FINANCIAL STATEMENTS** The Town's basic financial statements include both government-wide (reporting the Town as a whole) and fund financial statements (reporting the Town's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The Town's fire, park, streets, and general administration are classified as governmental activities. The Town's sewer services are classified as business-type activities.

**1D. 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. The statements distinguish between governmental and business-type activities. Governmental activities are financed by taxes, intergovernmental revenues, grants, fines, and other miscellaneous revenues. Business-type activities are financed by charges for services.

**1E. FUND FINANCIAL STATEMENTS** The financial transactions of the Town are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues, and expenditures/expenses. The following fund types are used by the Town:

**Governmental Funds** The measurement focus of governmental funds in the fund statements is current financial resources. Generally, only current financial assets and liabilities are included on their balance sheets and only sources and uses of available expendable resources are presented on their operating statements. Fund balance is used as their measure of available expendable resources at the end of the period.

**Special Revenue Funds** These funds are established to account for the proceeds of specific revenue sources other than special assessments, expendable trusts, or major capital projects that are legally restricted to expenditures for specific purposes.

**Proprietary Funds** This fund accounts for operations that are organized to be self-supporting through user charges. The fund included in this category is the Enterprise Fund established to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

**1F. BASIS OF ACCOUNTING** Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

**Accrual Basis** – Both governmental and business-type activities in the government-wide financial statements and proprietary fund financial statements are presented using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

**Modified Accrual Basis** - The governmental funds financial statements are presented using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual (both measurable and available). Available means collectable within the current period or within thirty days after year-end. Expenditures are generally recognized when the related liability is incurred.

**1G. BUDGETARY DATA** Formal budgetary accounting is employed as a management control for the general fund of the Town. Annual operating budgets are adopted each fiscal year through passage of an annual budget ordinance and amended as required. The basis of accounting for budgetary purposes for this fund is the modified accrual, i.e., revenues are recognized when received and expenditures are recognized when encumbered. The proprietary fund, Oaks Public Works Authority, also adopts a budget and revenues are recognized when earned and billed and expenditures are recognized when encumbered.

**1H. CASH AND CASH EQUIVALENTS** Cash consist of monies deposited into demand deposit and time deposit accounts.

Cash equivalents consist of interest bearing certificates of deposit with a maturity of one year or less. These are considered cash equivalents as they are readily converted to cash.

**1I. ACCOUNTS RECEIVABLE** All receivables are reported at their net value. The Oaks Public Works Authority bills customers for utility usage during the month. Accordingly, the estimated unbilled revenues are recognized at the end of each fiscal year on a pro-rata basis. The estimated amount is based on billings during the month following the close of the fiscal year.

**1J. DUE TO AND FROM OTHER FUNDS** Inter-fund receivables and payables arise from inter-fund transactions and are recorded by all funds affected in the period in which transactions are executed.

**1K. INTEREST RECEIVABLE** Interest on investments and certain receivables are recorded as revenue in the year the interest is earned and is available to pay liabilities of the current period.

**1L. INVENTORIES** Inventory of the Oaks Public Works Authority consists of utility materials and supplies that will be expenses when used for repairs and/or capitalized when used for improvements and many of the items are in the nature of a back-up to parts of the utility system. Thus, many of the inventory items will not be used in the next fiscal year. Accordingly, inventory has not been classified as a current asset.

**1M. CAPITAL ASSETS** - Capital assets purchased or acquired with an original cost of \$500 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives of the assets:

Buildings	30 years
Utility Systems	40 years
Equipment	5 to 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.

**1N. LONG-TERM DEBT** There is no long term debt.

## **2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

State statutes require that the Town's and the Oaks Public Works Authority's deposits exceeding \$100,000 in a financial institution be collateralized by securities. As of June 30, 2012 the institution was in compliance with this requirement for both the Town and the Public Works Authority.

### **2A. SALES TAX ALLOCATION**

The town collects a sales tax at the rate of three (3) percent. The town has elected to dedicated one quarter of one percent of the tax to the Parks and Recreation Department and three eighths of one percent to the Fire Department with the balance being allocated to the General Fund.

### 3. Changes in Capital Assets

Capital asset activity for the year was as follows:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
Capital Assets				
City Hall	50,000.00			50,000.00
Concession Stand	5,000.00			5,000.00
Land	50,000.00			50,000.00
Computer	1,400.00			1,400.00
Hustler Mower	6,825.00			6,825.00
Streets and Roads	<u>250,000.00</u>			<u>250,000.00</u>
Total Capital Assets	363,225.00			363,225.00
Less: Accumulated Depreciation	<u>304,320.00</u>			<u>304,320.00</u>
Net Book Value	<u>58,905.00</u>			<u>58,905.00</u>

PWA Capital asset activity for the year was as follows:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
Capital Assets				
Sewer System	<u>572,250.00</u>	<u>198,850.00</u>		<u>771,100.00</u>
Total Capital Assets	572,250.00	<u>198,850.00</u>		771,100.00
Less: Accumulated Depreciation	<u>0.00</u>	<u>0.00</u>		<u>0.00</u>
Net Book Value5	<u>572,250.00</u>			<u>771,100.00</u>

### 4. RELATED PARTY TRANSACTIONS

The Oaks Public Works Authority, a related party, provides sewer services for the Town of Oaks and operates as a component unit of the Town.



JUSTIN W. COWAN  
CERTIFIED PUBLIC ACCOUNTANT

Locust Grove, OK

PH: 918-479-6136

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Board of Directors  
Town Of Oaks  
Kansas, Oklahoma

I have audited the financial statements of the business-type activities of the Town Of Oaks as of and for the year ended June 30, 2012, which comprise the Town's basic financial statements, and have issued my report thereon dated September 27, 2012. I conducted my audit in accordance with generally accepted auditing standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America. The management's discussion and analysis on pages two through four are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion in it.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Town Of Oaks' internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town Of Oaks' internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Town Of Oaks' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

The Town's response to the findings identified in my audit is described in the accompanying schedule of findings and responses. I did not audit the Town's response and, accordingly, I express no opinion on it.

I also noted a certain immaterial additional matter that I have reported to the Board of the Town in a separate letter dated September 27, 2012.

This report is intended solely for the information and use of the Board of Directors, management, and the Oklahoma State Auditor and is not intended to be and should not be used by anyone other than these specified parties

Justin W. Cowan  
Certified Public Accountant

September 27, 2012

JUSTIN W. COWAN  
CERTIFIED PUBLIC ACCOUNTANT

Locust Grove, OK

PH: 918-479-6136

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors  
Town Of Oaks

Compliance

I have audited the compliance of Town Of Oaks with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 compliance Supplement that are applicable to each of its major federal and state programs for the year ended June 30, 2012. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal and state programs is the responsibility Town Of Oaks' management. My responsibility is to express an opinion on the Town Of Oaks' compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; OMB Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material affect on a major federal or state program occurred. An audit includes examining, on a test basis, evidence about Town Of Oaks' compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of Town Of Oaks' compliance with those requirements.

In my opinion, Town Of Oaks, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal and state programs for the year ended June 30, 2012.

Internal Control Over Compliance

The management of Town Of Oaks is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal and state programs. In planning and performing my audit, I considered Town Of Oaks' internal control over compliance with requirements that could have a direct and material effect on a major federal or state program in order to determine my auditing procedures for the purpose expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of law, regulations, contracts and grants that would be material in relation to a major federal or state program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no

matters involving the internal control over compliance and its operation that I consider to be a material weakness.

This report is intended for the information and use of the management of Town Of Oaks and other state and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Justin W. Cowan  
Certified Public Accountant

September 27, 2012

Town Of Oaks  
 Schedule of Findings and Questioned Costs  
Year Ended June 30, 2012

**Section I - Summary of Auditor's Results**

Financial Statements

Type of auditor's report issued	Unqualified
Internal control over financial reporting:	
Material weakness identified	No
Significant deficiencies identified not considered to be material weaknesses	No
Noncompliance material to financial statements	None noted

Federal Awards

Internal control over major programs:	
Material weakness identified	No
Significant deficiencies identified not considered to be material weaknesses	No
Type of auditor's report issued on compliance for major programs	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(1)	No

Name of Federal Program or Cluster CFDA number

Capitalization Grant for Drinking Water State Revolving Loan	N/A
Dollar threshold used to distinguish between Type A and Type B programs	\$ 300,000
Auditee qualified as low-risk audited	No

## Town Of Oaks

### SCHEDULE OF FINDINGS AND RESPONSES For the Year Ended June 30, 2012

#### Internal control – Segregation of Duties

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

Condition: Presently the same individuals that receive utility service related cash payments are also responsible for service billing and adjustment, also balances the daily cash drawer, posts payments to subsidiary accounts receivable ledger and reconciles the monthly bank statements.

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

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

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

Responsible Officials Response: The Town concurs with the recommendation. The Town will intends to make certain changes in procedures that will improve the overall lack of segregation of duties and will have management play a greater role in oversight in the billing, collection, and reconciliation function.

#### Internal Control – Financial Statements

Criteria: The Town's management is responsible for internal controls over financial reporting. This includes controls over the fair and complete presentation of the Town's annual financial statements in accordance with GAAP. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing and summarizing accounting data (i.e., maintaining books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting). Professional audit standards clearly indicate that the external financial statement auditor cannot take the responsibility for any part of management's control activities or be a component of the internal controls over financial reporting.

Condition: As is common in many small to medium size entities, the Town has historically relied extensively on its independent external auditor to provide the needed expertise to assist in the preparation of the financial statement footnotes. However, management is responsible for the preparation and fair presentation of the financial statements in accordance with applicable financial reporting, even if the auditor assists in drafting the financial statements. Accordingly, the Town's ability to prepare financial statements in accordance with (GAAP) is based, in part, on assistance from its external auditor, who cannot by definition be considered a part of the Town's internal controls.

Cause: Town personnel do not possess formal knowledge, expertise and education relative to preparing GAAP financial statements and related disclosures without assistance from the external auditor or another outside source. Professional standards do not require that management possess the expertise the expertise to prepare the financial statements but to have the skills to understand them. As a result, management was able to review the financial statements and related note disclosures and sufficiently understand them to take full responsibility for them as required by professional standards.

Effect or Potential Effect: As a result of this condition, without assistance from its external auditors or another outside source, the Town may lack the necessary internal controls over the preparation of financial statements in accordance with GAAP. The condition could also place the external auditor in a questionable position regarding auditor independence.

Recommendation: I recommend that the Town consider designing and implementing sufficient internal controls over financial reporting by obtaining the necessary knowledge, expertise and continuing education to prepare financial statements in accordance with generally accepted accounting principles without assistance from the external financial statement auditor. This could be achieved through employment of qualified accounting staff or the outsourcing of these control activities to a qualified accounting firm other than the external auditor.

Responsible Official's Response: The Town concurs with the recommendation, and will strive to expand their knowledge and understanding of the presentation and disclosure requirements of the financial statements.

**JUSTIN W. COWAN  
CERTIFIED PUBLIC ACCOUNTANT**

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P.O. Box 284  
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Phone (918) 479-6136

Town of Oaks  
P.O. Box 138  
Oaks, OK 74359

STATEMENT FOR SERVICES

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ANNUAL AUDIT FOR YEAR ENDED 06/30/12	\$ 3600.00
FEE FOR FILING WITH STATE AUDITOR	<u>100.00</u>
TOTAL DUE	\$ 3700.00

THANK YOU!  
YOUR BUSINESS IS APPRECIATED.