

TOWN OF RED OAK, OKLAHOMA
REPORT ON AUDIT OF FINANCIAL STATEMENTS
AND
SUPPLEMENTAL DATA FOR THE
TWELVE MONTHS ENDED JUNE 30, 2011

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Eufaula, Oklahoma 74432

**TOWN OF RED OAK
RED OAK, OKLAHOMA
JUNE 30, 2011**

Table of Contents

FINANCIAL SECTION:

Independent Auditor's Report	3
Management's Discussion and Analysis	5
Basic Financial Statements:	
Exhibit A - Statement of Net Assets	11
Exhibit B - Statement of Activities	12
Exhibit C - Balance Sheet - Governmental Funds	14
Exhibit D - Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	15
Exhibit E - Statement of Net Assets - Proprietary Funds	16
Exhibit F - Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Funds	17
Exhibit G - Statement of Cash Flows - Proprietary Funds	18
Notes to the Financial Statements	20

REQUIRED SUPPLEMENTARY INFORMATION:

Schedule 1 - Budgetary Comparison, General Fund	30
Schedule 2 - Budgetary Comparison, Street & Alley	30
Schedule 2 – Budgetary Comparison, Fire	31

INTERNAL CONTROL & COMPLIANCE SECTION:

Independent Auditor's Report on the Internal Control over Financial Reporting And Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	32
Schedule of Findings	34
Schedule of Responses and Corrective Actions	35

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Town of Red Oak
Red Oak, Oklahoma

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Red Oak as of and for the year ended June 30, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Red Oak's management. My responsibility is to express opinions 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. Those 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 opinions.

In my opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Red Oak as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 5 thru 10, and budgetary comparison information on page 30 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 required supplementary information; however, I did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, I have also issued a report dated June 5, 2013 on my consideration of the Town of Red Oak's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and 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 this audit.

Cynthia L Warren CPA, P.C.

Cynthia L Warren CPA, P.C.

June 5, 2013

Town of Red Oak
Red Oak, Oklahoma 74333

MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2011

The following discussion and analysis of the Town of Red Oak's financial performance provides an overview of the Town's financial activities for the fiscal year ended June 30, 2011. The information contained in this MD&A should be considered in conjunction with the accompanying basic financial statements.

Financial Highlights

The assets of the Town of Red Oak exceeded its liabilities at the close of the fiscal year ending June 30, 2011 by \$1,442,643. Of this amount, \$342,452 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

The Town of Red Oak's net assets decreased by \$23,943 which can be attributed to a decrease in assets of \$39,214 and a decrease in liabilities of \$15,271.

The Town of Red Oak's total debt decreased by \$17,583 during the current fiscal year.

Revenues of the Town decreased \$29,036 and expenses decreased \$49,258 for a net increase in change in net assets of \$20,222.

Overview of the Financial Statements

This discussion and analysis serves as an introduction to the Town of Red Oak's basic financial statements. The Town of Red Oak's basic financial statements are comprised of three components, government-wide financial statements, fund financial statements, and notes to the financial statements. The basic statements provide readers with a broad overview of the Town's finances. The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the Town of Red Oak's finances, in a manner similar to a private-sector business. The Statement of Net Assets presents information on all of the Town of Red Oak's assets and liabilities, with the differences between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the Town of Red Oak is improving or deteriorating. The Statement of Net Assets combines and consolidates governmental funds' current financial resources with capital assets and long-term obligations. Other nonfinancial factors should also be taken into consideration such as economic factors. The Statement of Activities presents information showing how the Town's net assets changed during the most recent fiscal year. Both the statement of Net Assets and the Statement of Activities are prepared utilizing the accrual basis of accounting and economic resources measurement focus.

MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2011

Fund Financial Statements

Fund financial statements focus separately on governmental funds and proprietary funds. Governmental fund statements report only current financial resources on the modified accrual basis of accounting. As a result, capital assets and long-term debt are not reported in government fund financial statements. Proprietary fund financial statements are presented, similar to the government-wide financial statements, on the economic resources measurement focus and accrual basis of accounting, and include all assets and liabilities. The Town's major funds are presented in their own column and the remaining funds are combined into a single column.

Notes to the Financial Statements

The notes to the financial statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the Town's financial condition.

Supplementary Information

As required by generally accepted accounting principles, a budgetary comparison is presented for the general fund which is the only major governmental fund for which a budget is legally adopted.

Town as a Whole

Government-wide Financial Statements

A condensed version of the Statement of Net Assets at June 30, 2011 and June 30, 2010 is as follows:

	6/30/2011	6/30/2010	Variance
Current Assets :			
Governmental Activities	\$ 280,857	\$ 291,616	\$ (10,759)
Business-type Activities	86,943	80,413	6,530
	<u>367,800</u>	<u>372,029</u>	<u>(4,229)</u>
Noncurrent Assets:			
Governmental Activities	164,250	147,493	16,757
Business-type Activities	1,134,365	1,186,107	(51,742)
	<u>1,298,615</u>	<u>1,333,600</u>	<u>(34,985)</u>
Total Assets	<u>\$ 1,666,415</u>	<u>\$ 1,705,629</u>	<u>\$ (39,214)</u>
Current Liabilities:			
Governmental Activities	\$ 10,137	\$ 8,638	\$ 1,499
Business-type Activities	32,036	32,524	(488)
	<u>42,173</u>	<u>41,162</u>	<u>1,011</u>

MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2011

	<u>6/30/2011</u>	<u>6/30/2010</u>	<u>Variance</u>
Noncurrent Liabilities:			
Governmental Activities	-	-	-
Business-type Activities	181,599	197,881	(16,282)
	<u>181,599</u>	<u>197,881</u>	<u>(16,282)</u>
Total Liabilities	<u>223,772</u>	<u>239,043</u>	<u>(15,271)</u>
Net Assets:			
Invested in Capital Assets, net:			
Governmental Activities	164,250	147,493	16,757
Business-type Activities	914,129	949,005	(34,876)
	<u>1,078,379</u>	<u>1,096,498</u>	<u>(18,119)</u>
Restricted Net Assets:			
Governmental Activities	-	-	-
Business-type Activities	21,812	21,749	63
	<u>21,812</u>	<u>21,749</u>	<u>63</u>
Unrestricted Net Assets:			
Governmental Activities	270,720	282,978	(12,258)
Business-type Activities	71,732	65,361	6,371
	<u>342,452</u>	<u>348,339</u>	<u>(5,887)</u>
Net Assets	<u>\$ 1,442,643</u>	<u>\$ 1,466,586</u>	<u>\$ (23,943)</u>

- Total assets have decreased \$39,214 over the prior year which consists of a decrease of current assets in the amount of \$4,229 and a decrease in noncurrent assets in the amount of \$34,985. The decrease in current assets is attributable to the decrease in Cash and Cash Equivalents in the amount of \$15,746 with an increase in Investments of \$3,894 and an increase in accounts receivable of \$7,623. The noncurrent assets of the Town decreased from a net increase in capital assets from the purchase of capital assets less the increase in accumulated depreciation from the depreciation expense.
- Total liabilities decreased by \$15,271. Noncurrent liabilities have decreased from the principal payments on the long-term debt and bonds and current liabilities increased from an increase in accounts payable.
- Total net assets decreased \$23,943, the difference between revenues and expenses.

MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2011

A condensed version of the Statement of Activities follows:

	<u>6/30/2011</u>	<u>6/30/2010</u>	<u>Variance</u>
Governmental Activities:			
Program Revenues:			
General Government	\$ 22,850	\$ -	\$ 22,850
Police	9,631	15,580	(5,949)
Fire	4,398	50,675	(46,277)
Nutrition	-	12,001	(12,001)
Street and Alley	4,702	5,736	(1,034)
	<u>41,581</u>	<u>83,992</u>	<u>(42,411)</u>
General Revenues:			
Taxes	130,799	120,957	9,842
Investment Earnings	2,427	2,851	(424)
Miscellaneous	10,997	8,470	2,527
	<u>144,223</u>	<u>132,278</u>	<u>11,945</u>
Business-Type Activities:			
Program Revenues:			
Public Works - Water and Sewer	165,889	163,200	2,689
Trash Collections	30,447	30,572	(125)
	<u>196,336</u>	<u>193,772</u>	<u>2,564</u>
General Revenues:			
Investment Earnings	1,079	1,275	(196)
Miscellaneous	-	938	(938)
	<u>1,079</u>	<u>2,213</u>	<u>(1,134)</u>
Total Revenues	<u>383,219</u>	<u>412,255</u>	<u>(29,036)</u>
Governmental Activities:			
Expenses:			
General Government	\$ 110,252	\$ 102,217	\$ 8,035
Library	1,550	3,871	(2,321)
Police	42,695	39,913	2,782
Fire	24,057	66,578	(42,521)
Nutrition	-	13,502	(13,502)
Street and Alley	2,751	-	2,751
	<u>181,305</u>	<u>226,081</u>	<u>(44,776)</u>
Business-Type Activities:			
Expenses:			
Public Works - Water and Sewer	197,657	200,339	(2,682)
Trash Collections	28,200	30,000	(1,800)
	<u>225,857</u>	<u>230,339</u>	<u>(4,482)</u>
Total Program Expenses	<u>407,162</u>	<u>456,420</u>	<u>(49,258)</u>
Change in Net Assets	(23,943)	(44,165)	20,222
Net Assets, Beginning	1,466,586	1,510,751	(44,165)
Net Assets, Ending	<u>\$ 1,442,643</u>	<u>\$ 1,466,586</u>	<u>\$ (23,943)</u>

**MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2011**

The amounts reported for the 2011 fiscal year in the above condensed Statement of Activities indicated some significant variances. Revenues for the current year decreased over the prior year in the amount of \$29,036 with expenses decreasing over the prior year in the amount of \$49,258. The revenues for governmental activities decreased \$30,466 resulting from a decrease in operating grants. Program revenues for Business-type activities increased a small amount over the prior year from an increase in water and sewer revenues.

The Town of Red Oak experienced a net decrease in expenses for Government Activities in the amount of \$49,258. This decrease was created from a decrease in Fire Department grant expenses and also the elimination of the Nutrition program. The decrease in expenses for the Business-type Activities is attributable to a decrease in routine expenses incurred by the PWA.

Fund Financial Information and Budgetary Highlights

The Town of Red Oak operates under the Budget Act statutes of Oklahoma. Over the course of the year, there were no budget revisions. At the end of the year, the General Fund experienced a favorable revenue variance of \$24,657, and an unfavorable expenditure variance of \$34,682, which combined for an unfavorable variance in the amount of \$10,025 in terms of net change to fund balance.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2011, the Town has \$1,256,653 invested in capital assets, including machinery and equipment, buildings, the water system and the sewer system. As viewed below, the decrease in Net Capital Assets is attributed to the current year purchases less the current year depreciation expense.

	Balance			Balance
	<u>6/30/2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>6/30/2011</u>
Buildings	71,138	33,800	-	104,938
Water and Sewer System	1,732,389	-	-	1,732,389
Machinery and Equipment	<u>234,275</u>	<u>6,163</u>	-	<u>240,438</u>
	2,037,802	39,963	-	2,077,765
Accumulated Depreciation	<u>745,401</u>	<u>75,711</u>	-	<u>821,112</u>
	<u>1,292,401</u>	<u>(35,748)</u>	-	<u>1,256,653</u>
	<u>\$ 1,292,401</u>	<u>\$ (35,748)</u>	<u>\$ -</u>	<u>\$ 1,256,653</u>

See Note 4 on page 27 for additional information on capital assets activity and balances.

MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2011

Debt Outstanding

The Town of Red Oak has not incurred any new debt during the current year. There are two outstanding debts owed by the Red Oak Public Works Authority, Revenue Bonds in the amount of \$106,217 and a loan from Oklahoma Department of Commerce in the amount of \$71,875. During the year ending June 30, 2011, principal payments of \$17,583 and interest of \$1,655 were paid.

See Note 5 on page 28 for additional information on long-term debt activity and balances.

Economic Factors and Next Year's Budget

The Town of Red Oak uses the Municipal Budget Act. The budget for the year ending June 30, 2012 remains similar to the previous year with decreases in revenues.

Financial Contact

The Town's financial statements are designed to present users with a general over view of the Town's finances and to demonstrate the Town's accountability. If you have questions about the report or need additional financial information, please contact the Mayor or Town Clerk at the Town of Red Oak, Red Oak, Oklahoma at 918-673-1765.

TOWN OF RED OAK, OKLAHOMA
STATEMENT OF NET ASSETS
JUNE 30, 2011

<u>ASSETS</u>	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
Current Assets:			
Cash and Cash Equivalents	\$ 225,249	\$ 26,590	\$ 251,839
Accounts Receivable, Net	22,235	16,305	38,540
Investments, Unrestricted	<u>33,373</u>	<u>44,048</u>	<u>77,421</u>
Total Current Assets	<u>280,857</u>	<u>86,943</u>	<u>367,800</u>
Noncurrent Assets:			
Restricted Investments, Debt Reserve	-	21,812	21,812
Restricted Cash and Cash Equivalents, Meter Funds	-	20,150	20,150
Capital Assets, Net of Depreciation	<u>164,250</u>	<u>1,092,403</u>	<u>1,256,653</u>
Total Assets	<u>\$ 445,107</u>	<u>\$ 1,221,308</u>	<u>\$ 1,666,415</u>
LIABILITIES AND NET ASSETS			
Current Liabilities:			
Accounts Payable	\$ 10,137	\$ 15,211	\$ 25,348
Accrued Interest Payable	-	182	182
Notes Payable, Current	<u>-</u>	<u>16,643</u>	<u>16,643</u>
Total Current Liabilities	<u>10,137</u>	<u>32,036</u>	<u>42,173</u>
Noncurrent Liabilities:			
Customer Deposits Payable	-	20,150	20,150
Notes Payable	<u>-</u>	<u>161,449</u>	<u>161,449</u>
Total Noncurrent Liabilities	<u>-</u>	<u>181,599</u>	<u>181,599</u>
Total Liabilities	<u>10,137</u>	<u>213,635</u>	<u>223,772</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	164,250	914,129	1,078,379
Restricted Net Assets	-	21,812	21,812
Unrestricted Net Assets	<u>270,720</u>	<u>71,732</u>	<u>342,452</u>
Total Net Assets	<u>434,970</u>	<u>1,007,673</u>	<u>1,442,643</u>
Total Liabilities and Net Assets	<u>\$ 445,107</u>	<u>\$ 1,221,308</u>	<u>\$ 1,666,415</u>

See accompanying notes to the basic financial statements.

Exhibit B

**TOWN OF RED OAK, OKLAHOMA
STATEMENT OF ACTIVITIES
FOR THE TWELVE MONTHS ENDED JUNE 30, 2011**

	<u>Program Revenues</u>				<u>Net (Expenses) Revenue and Changes in Net Assets</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Governmental Activities:							
General Government	\$ 110,252	\$ -	\$ -	\$ 22,850	\$ (87,402)	\$ -	\$ (87,402)
Library	1,550	-	-	-	(1,550)	-	(1,550)
Public Safety:							
Police	42,695	9,631	-	-	(33,064)	-	(33,064)
Fire	24,057	-	4,398	-	(19,659)	-	(19,659)
Street and Alley	<u>2,751</u>	<u>-</u>	<u>4,702</u>	<u>-</u>	<u>1,951</u>	<u>-</u>	<u>1,951</u>
Total Governmental Activities	<u>181,305</u>	<u>9,631</u>	<u>9,100</u>	<u>22,850</u>	<u>(139,724)</u>	<u>-</u>	<u>(139,724)</u>
Business-type Activities:							
Public Works - Water and Sewer	197,657	165,889	-	-	-	(31,768)	(31,768)
Trash Collections	<u>28,200</u>	<u>30,447</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,247</u>	<u>2,247</u>
Total Business-type Activities	<u>225,857</u>	<u>196,336</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(29,521)</u>	<u>(29,521)</u>
Total	<u>\$ 407,162</u>	<u>\$ 205,967</u>	<u>\$ 9,100</u>	<u>\$ 22,850</u>	<u>\$ (139,724)</u>	<u>\$ (29,521.00)</u>	<u>\$ (169,245.00)</u>

See accompanying notes to the basic financial statements.

**TOWN OF RED OAK, OKLAHOMA
STATEMENT OF ACTIVITIES, CONTINUED
FOR THE TWELVE MONTHS ENDED JUNE 30, 2011**

	<u>Net (Expenses) Revenue and Changes in Net Assets</u>		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Program Revenues:			
Expenses (Over) Under Revenues	<u>(139,724)</u>	<u>(29,521)</u>	<u>(169,245)</u>
General Revenues:			
Taxes:			
Sales Tax	106,843	-	106,843
Franchise Tax	11,820	-	11,820
Intergovernmental -			
State Alcoholic Beverage Tax	12,136	-	12,136
Investments Earnings	2,427	1,079	3,506
Miscellaneous	<u>10,997</u>	<u>-</u>	<u>10,997</u>
Total General Revenues	<u>144,223</u>	<u>1,079</u>	<u>145,302</u>
Changes in Net Assets	4,499	(28,442)	(23,943)
Net Assets at Beginning of Year	<u>430,471</u>	<u>1,036,115</u>	<u>1,466,586</u>
Net Assets at End of Year	<u>\$ 434,970</u>	<u>\$ 1,007,673</u>	<u>\$ 1,442,643</u>

See accompanying notes to the basic financial statements.

**TOWN OF RED OAK, OKLAHOMA
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2011**

	<u>General Fund</u>	<u>Street/Alley & Fire Dept Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>			
Current Assets:			
Cash	\$ 190,966	\$ 34,283	\$ 225,249
Accounts Receivable, Net	21,880	355	22,235
Investments, Unrestricted	33,373	-	33,373
Total Current Assets	\$ 246,219	\$ 34,638	280,857
LIABILITIES AND FUND BALANCES			
Current Liabilities:			
Accounts Payable	10,137	-	10,137
Total Current Liabilities	10,137	-	10,137
Fund Balances:			
Unreserved Fund Balance	236,082	34,638	270,720
Total Fund Balances	236,082	34,638	270,720
Total Liabilities and Fund Balances	\$ 246,219	\$ 34,638	
Capital Assets, net of accumulated depreciation, used in Governmental Activities are not current financial resources and therefore are not reported in the governmental funds.			164,250
Net Assets of Governmental Activities			\$ 434,970

See accompanying notes to the basic financial statements.

**TOWN OF RED OAK, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>General Fund</u>	<u>Street/Alley & Fire Dept Fund</u>	<u>Total Governmental Funds</u>
Revenues:			
Taxes	\$ 130,799	\$ 4,702	\$ 135,501
Fines and Forfeitures	9,631	-	9,631
Operating Grants and Contributions	-	4,398	4,398
Miscellaneous	10,950	45	10,995
Interest	2,427	-	2,427
Total Revenues	153,807	9,145	162,952
Current Expenditures:			
General Government			
Personal Services	11,790	-	11,790
Maintenance and Operations	93,277	8,786	102,063
Capital Outlay	37,370	2,592	39,962
Police			
Salaries	28,180	-	28,180
Maintenance and Operations	14,515	-	14,515
Library			
Maintenance and Operations	1,550	-	1,550
Total Expenditures	186,682	11,378	198,060
Other Financing Sources and Uses:			
Capital Grants	22,850	-	22,850
Total Other Financing Sources	22,850	-	22,850
Net Change in Fund Balance	(10,025)	(2,233)	(12,258)
Fund Balance, Beginning	246,107	36,871	
Fund Balance, End	\$ 236,082	\$ 34,638	
Adjustments for the Statement of Activities:			
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. This is the amount of depreciation expense in the current period less capital outlay less capital outlay.			16,757
Change in Net Assets			\$ 4,499

See accompanying notes to the basic financial statements.

**TOWN OF RED OAK, OKLAHOMA
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
JUNE 30, 2011**

	Enterprise Funds
<u>ASSETS</u>	
Current Assets:	
Cash	\$ 26,590
Accounts Receivable, Net	16,305
Investments, Unrestricted	44,048
Total Current Assets	86,943
Noncurrent Assets:	
Restricted Investments, Debt Reserve	21,812
Restricted Cash, Meter Funds	20,150
Capital Assets, Net of Depreciation	1,092,403
Total Assets	\$ 1,221,308
LIABILITIES AND NET ASSETS	
Current Liabilities:	
Accounts Payable	\$ 15,211
Accrued Interest Payable	182
Notes Payable, Current Portion	16,643
Total Current Liabilities	32,036
Noncurrent Liabilities:	
Customer Deposits Payable	20,150
Notes Payable, Less Current Maturities	161,449
Total Noncurrent Liabilities	181,599
Total Liabilities	213,635
Net Assets:	
Invested in Capital Assets, Net of Related Debt	914,129
Restricted Net Assets	21,812
Unrestricted Net Assets	71,732
Total Net Assets	1,007,673
Total Liabilities and Net Assets	\$ 1,221,308

See accompanying notes to the basic financial statements.

**TOWN OF RED OAK, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011**

	Enterprise Funds
Operating Revenues:	
Charges for services - Water & Sewer	\$ 165,889
Charges for services - Trash Collections	30,447
Grant Revenue	-
Miscellaneous	-
Total Revenues	196,336
Operating Expenses:	
Management Services	132,860
Salaries and Wages	7,302
Trash Service	28,200
Repairs and Maintenance	695
Materials and Supplies	1,328
Other Services and Charges	1,312
Grant Administration	-
Depreciation	52,505
Total Expenditures	224,202
Net Operating Income	(27,866)
Nonoperating Revenue(Expense)	
Investment Income	1,079
Interest Expense	(1,655)
Total Nonoperating Revenue(Expense)	(576)
Increase (Decrease) in Net Assets	(28,442)
Net Assets, Beginning	1,036,115
Net Assets, Ending	\$ 1,007,673

See accompanying notes to the basic financial statements.

TOWN OF RED OAK, OKLAHOMA
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	Enterprise Funds
Cash Flows from Operating Activities:	
Receipts from Customers	\$ 197,601
Payments to Employees	(7,302)
Payments to Suppliers and Vendors	<u>(164,236)</u>
Net Cash Provided (Used) by Operating Activities	<u>26,063</u>
 Cash Flows from Capital and Related Financing Activities:	
Principal Paid on Long-term Debt	(17,583)
Interest Paid on Long-term Debt	<u>(1,701)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(19,284)</u>
 Cash Flows from Investing Activities:	
Receipts of Interest Income	1,079
Purchase of Investments	<u>(923)</u>
Net Cash Provided (Used) from Investing Activities	<u>156</u>
 Net Increase (Decrease) in Cash and Cash Equivalents	 6,935
 Cash and Cash Equivalents, Beginning	 <u>61,617</u>
 Cash and Cash Equivalents, Ending	 <u><u>\$ 68,552</u></u>
 Cash and Cash Equivalents	 \$ 26,590
Restricted Investments, Debt Reserve	21,812
Restricted Cash, Meter Funds	<u>20,150</u>
	<u><u>\$ 68,552</u></u>

See accompanying notes to the basic financial statements.

**TOWN OF RED OAK, OKLAHOMA
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011**

	Enterprise Funds
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:	
Operating Income (Loss)	<u>\$ (27,866)</u>
Adjustments to reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Depreciation	52,505
Change in Assets and Liabilities:	
Accounts Receivable	565
Accounts Payable	<u>859</u>
Total Adjustments	<u>53,929</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 26,063</u>

See accompanying notes to the basic financial statements.

TOWN OF RED OAK, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Town of Red Oak (the Town) relating to the fund types included in the financial statements conform to generally accepted accounting principles prescribed by the Governmental Accounting Standards Board. The following represent the more significant accounting and reporting policies and practices of the Town.

Reporting Entity

The Town of Red Oak, 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 of Red Oak includes all its funds as well as the funds and accounts of the blended component unit; the Red Oak Public Works Authority.

The Red Oak Public Works Authority 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 of Red Oak. 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 of Red Oak. The ROPWA is governed by the trustees of the Town of Red Oak.

Basis of Presentation

Management's Discussion and Analysis:

GASB 34 requires the financial statements be accompanied by a narrative introduction and analytical overview of the Town's financial activities in the form of management's discussion and analysis (MD&A).

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.

**TOWN OF RED OAK, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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, Fire and Nutrition Fund.

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 Red Oak Public Works Authority.

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.

The government-wide financial statements and proprietary funds are reported using the economic resources measurement focus and the accrual 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.

TOWN OF RED OAK, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. 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. For this purpose, the Town considers revenues to be available if they are collected within 30 days after year end. Expenditures are recorded when the related fund liability is incurred. 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 is prepared for the governmental funds and an operating budget forecast is prepared for the Public Works Authority Fund. 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 Assets, 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.

Investments:

Investments 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.

Receivables:

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivables.

**TOWN OF RED OAK, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Restricted Assets:

Under the terms of the bond indentures, the Red Oak Public Works Authority 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.

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. Prior to July 1, 2003, governmental funds' infrastructure assets were not capitalized. It is the policy of the Town to capitalize all assets with a cost of \$1,000 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 assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follow:

Buildings	20 years
Improvements	10 - 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.

**TOWN OF RED OAK, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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 assets and displayed in the following components:

- A. 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.
- B. Restricted Net Assets - 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.
- C. Unrestricted Net Assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Statements

Governmental fund equity is classified as fund balance. Fund Balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated to the extent applicable. 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.

TOWN OF RED OAK, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Expenditures/Expenses:

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

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

Government Funds - By Character
 Current
 Capital Outlay
 Proprietary Fund - By Operating and Nonoperating.

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

NOTE 2 – CASH, CASH EQUIVALENTS, RESTRICTED CASH AND INVESTMENTS

The Town of Red Oak is governed by the deposit and investment limitations of state law. The deposits and investments held at June 30, 2011, and reported at fair value are as follow:

<u>TYPE</u>	<u>Carrying Value</u>
Deposits:	
Demand Deposits	\$ 312,629
Investments:	
Certificates of Deposit	58,593
Total Deposits and Investments	<u>\$ 371,222</u>
Reconciliation to Statement of Net Assets:	
Cash and Cash Equivalents	\$ 251,839
Investments, Unrestricted	77,421
Restricted Cash and Cash Equivalents, Meter Funds	20,150
Restricted Investments, Debt Reserve	21,812
	<u>\$ 371,222</u>

TOWN OF RED OAK, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 2 - CASH, CASH EQUIVALENTS, RESTRICTED CASH AND INVESTMENTS,
Continued

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 a bank balance of \$371,222 at June 30, 2011, which was 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.

Investment 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 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 Deposit or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trust 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.

TOWN OF RED OAK, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 2 - CASH, CASH EQUIVALENTS, RESTRICTED CASH AND INVESTMENTS,
Continued

Concentration of Investment Credit Risk - The Town places no limit on the amount it may invest in any one issuer. At June 30, 2011, the Town had limited concentration of credit risk because the investments consist of Certificates of Deposit.

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable in the enterprise fund represent utility billings at June 30, 2011. As of this date, no allowance is considered necessary as all receivables are considered collectible. In the governmental funds, accounts receivable represents receivables for taxes.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 is as follows:

	Balance			Balance
	<u>6/30/2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>6/30/2011</u>
<i>Governmental Activities:</i>				
Buildings	60,580	33,800	-	94,380
Machinery and Equipment	<u>194,567</u>	<u>6,163</u>	-	<u>200,730</u>
	<u>255,147</u>	<u>39,963</u>	-	<u>295,110</u>
Less: Accumulated Depreciation				
Buildings	14,102	4,524	-	18,626
Machinery and Equipment	<u>93,552</u>	<u>18,682</u>	-	<u>112,234</u>
Total Accumulated Depreciation	<u>107,654</u>	<u>23,206</u>	-	<u>130,860</u>
	<u>147,493</u>	<u>16,757</u>	-	<u>164,250</u>
<i>Business-type Activities:</i>				
Depreciable Assets:				
Buildings	10,558	-	-	10,558
Machinery and Equipment	39,708	-	-	39,708
Water and Sewer System	<u>1,732,389</u>	-	-	<u>1,732,389</u>
	<u>1,782,655</u>	-	-	<u>1,782,655</u>
Less: Accumulated Depreciation				
Buildings	12,303	528	-	12,831
Water and Sewer System	593,115	48,571	-	641,686
Machinery and Equipment	<u>32,329</u>	<u>3,406</u>	-	<u>35,735</u>
Total Accumulated Depreciation	<u>637,747</u>	<u>52,505</u>	-	<u>690,252</u>
	<u>1,144,908</u>	<u>(52,505)</u>	-	<u>1,092,403</u>
	<u>\$ 1,292,401</u>	<u>\$ (35,748)</u>	<u>\$ -</u>	<u>\$ 1,256,653</u>

Depreciation expense for June 30, 2011 is \$75,711.

TOWN OF RED OAK, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 5 - LONG-TERM DEBT

Long-term debt consists of the following debts owed by the Town of Red Oak and the Red Oak Public Works Authority. A summary of long-term debt follows:

Governmental Fund:

A financial obligation exists to the State Department of Transportation for the Town's share of the cost of relocation of utilities on the widening and resurfacing of U.S. Highway 270 within the Town limits of the Town of Red Oak. The Town's total share of the cost is \$42,874. The Town is currently paying the obligation at a rate of \$50 per month with no interest.

Business-type Activities:

First Mortgage Revenues Bonds were issued May 1, 1993 in the original amount of \$220,000 with a Variable Coupon Rate.

Long-term debt is owed to the Oklahoma Department of Commerce with an original balance of \$125,000, payable at no interest and monthly payments of \$520.83.

	<i>Balance</i>			<i>Balance</i>	<i>Due in</i>
	<u>6/30/2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>6/30/2011</u>	<u>One Year</u>
<i>Business-type Activities:</i>					
ODOC long-term debt	\$ 78,125	\$ -	\$ 6,250	\$ 71,875	\$ 6,250
First Mortgage Revenue Bonds	<u>117,550</u>	<u>-</u>	<u>11,333</u>	<u>106,217</u>	<u>10,393</u>
	<u>\$ 195,675</u>	<u>\$ -</u>	<u>\$ 17,583</u>	<u>\$ 178,092</u>	<u>\$ 16,643</u>

Maturities of long-term debt are as follow:

MATURITY OF LONG-TERM DEBT:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	<u>Payments</u>	<u>Payments</u>	
6/30/2012	16,643	1,340	17,983
6/30/2013	16,724	1,259	17,983
6/30/2014	16,868	1,115	17,983
6/30/2015	17,015	968	17,983
6/30/2016	17,163	820	17,983
6/30/2017 to 6/30/2021	84,304	1,757	86,061
6/30/2022 to 6/30/2023	<u>9,375</u>	<u>44</u>	<u>9,419</u>
	<u>\$ 178,092</u>	<u>\$ 7,303</u>	<u>\$ 185,395</u>

**TOWN OF RED OAK, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 6 - LITIGATION

Neither the Town nor the Authority has any known pending claims or lawsuits against them as of June 30, 2011, the outcome of which would result in a material liability or damage claim.

NOTE 7 - CONTINGENCIES

The entity is subject to possible examinations by federal regulators who determine compliance with terms, conditions, laws and regulations governing grants given to the entity 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 8 - 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. Settled claims have not exceeded coverage in any of the past three fiscal years.

**TOWN OF RED OAK, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011**

<i>GENERAL:</i>	Original	Final		Variance
	<u>Budget</u>	<u>Budget</u>	<u>Actual</u>	Positive <u>(Negative)</u>
Revenues:				
Taxes	\$ 125,000	\$ 125,000	\$ 130,799	\$ 5,799
Fines and Forfeitures	10,000	10,000	9,631	(369)
Grants	5,000	5,000	22,850	17,850
Miscellaneous	10,000	10,000	10,950	950
Interest	2,000	2,000	2,427	427
Total Revenues	152,000	152,000	176,657	24,657
Expenditures:				
General Government				
Personal Services	10,000	10,000	11,790	(1,790)
Maintenance and Operations	41,000	41,000	51,277	(10,277)
Capital Outlay	10,000	10,000	14,520	(4,520)
Grant Expenditures	5,000	5,000	22,850	(17,850)
Transfer to Other Funds	42,000	42,000	42,000	-
Police				
Salaries	29,000	29,000	28,180	820
Maintenance and Operations	13,000	13,000	14,515	(1,515)
Library				
Maintenance and Operations	2,000	2,000	1,550	450
Total Expenditures	152,000	152,000	186,682	(34,682)
Net Change in Fund Balance	\$ -	\$ -	\$ (10,025)	\$ (10,025)

See accompanying notes to the basic financial statements.

**TOWN OF RED OAK, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011**

STREET & ALLEY:

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:				
Taxes	\$ 5,000	\$ 5,000	\$ 4,702	\$ (298)
Total Revenues	5,000	5,000	4,702	(298)
Expenditures:				
Maintenance and Operations	4,500	4,500	2,720	1,780
Capital Outlay	500	500	2,592	(2,092)
Total Expenditures	5,000	5,000	5,312	(312)
Net Change in Fund Balance	\$ -	\$ -	\$ (610)	\$ (610)

FIRE:

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:				
Donations	\$ 4,000	\$ 4,000	\$ -	\$ (4,000)
Grant Revenues	-	-	4,398	\$ 4,398
Miscellaneous	-	-	45	45
Total Revenues	4,000	4,000	4,443	443
Expenditures:				
Maintenance and Operations	4,000	4,000	6,066	(2,066)
Capital Outlay	-	-	-	-
Total Expenditures	4,000	4,000	6,066	(2,066)
Net Change in Fund Balance	\$ -	\$ -	\$ (1,623)	\$ (1,623)

See accompanying notes to the basic financial statements.

CYNTHIA L WARREN CPA, P.C.

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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**

Board of Commissioners
Town of Red Oak
Red Oak, Oklahoma

I have audited the financial statements of the Town of Red Oak, as of and for the year ended June 30, 2011, and have issued my report thereon dated June 5, 2013. *Management's Discussion and Analysis* on pages 5 through 10 and Budgetary Comparisons on page 30 and 31 are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. I did not audit the information and express no opinion on it. 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.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Town of Red Oak's 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 the Town's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

My consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, I identified a deficiency in internal control over financial reporting that I consider to be a material weakness.

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. I consider the deficiency described in the accompanying schedule of findings as finding #2011-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, I 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 statements 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 of Red Oak's response to the findings identified in my audit is described in the accompanying schedule of responses and corrective actions. I did not audit the Town's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of the management, the board of commissioners, others within the entity 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.

Cynthia L. Warren CPA, P.C.

Cynthia L Warren CPA, P.C.

June 5, 2013

**TOWN OF RED OAK, OKLAHOMA
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011**

#2011-01 *Lack of 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 authority'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 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, the Town Clerk and 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 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 errors 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.

**TOWN OF RED OAK, OKLAHOMA
SCHEDULE OF RESPONSES AND CORRECTIVE ACTIONS
FOR THE YEAR ENDED JUNE 30, 2011**

The following are the responses and corrective actions of the Town of Red Oak concerning the findings reported in the accompanying Schedule of Findings for the year ending June 30, 2011:

#2011-01 The Town of Red Oak is a small governmental entity. The Town is aware of the limitations in the segregation of duties but at the current time with the current revenues, it is not feasible to increase the segregation of duties.

Contact Persons: Town Clerk and Town Council