

TOWN OF RED OAK, OKLAHOMA
REPORT ON AUDIT OF FINANCIAL STATEMENTS
AND
SUPPLEMENTAL DATA FOR THE
TWELVE MONTHS ENDED JUNE 30, 2015

CYNTHIA L WARREN CPA, P.C.

Eufaula, Oklahoma 74432

**TOWN OF RED OAK
RED OAK, OKLAHOMA
JUNE 30, 2015**

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Town of Red Oak
Red Oak, Oklahoma

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, and the major funds of the Town of Red Oak as of and for the year ended June 30, 2015, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Town of Red Oak as of June 30, 2015, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 5 through 9 and the Budgetary Comparison on page 28 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operations, economic, or historical context. I have applied certain limited procedures on the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the method of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide sufficient evidence to express an opinion or provide any assurance.

Report Issued in Accordance with *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued a report dated January 15, 2016 on my consideration of the Town of Red Oak's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, 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. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the internal control over financial reporting and compliance.

Cynthia L Warren CPA, P.C.

Cynthia L Warren CPA, P.C.
Eufaula, Oklahoma
January 15, 2016

Town of Red Oak
Red Oak, Oklahoma 74333

MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2015

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, 2015. 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, 2015 by \$1,214,091. Of this amount, \$252,256 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.

The Town of Red Oak's net position decreased by \$60,980 which can be attributed to a decrease in assets of \$68,563 and a decrease in liabilities of \$7,583.

The Town of Red Oak's total long-term debt decreased by \$17,725 during the current fiscal year.

Revenues of the Town increased by \$44,648 and expenses increased \$48,734 for a net decrease in change in net position of \$4,086.

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 Position presents information on all of the Town of Red Oak's assets and liabilities, with the differences between the two reported as net position. 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 Position 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 position changed during the most recent fiscal year. Both the Statement of Net Position and the Statement of Activities are prepared utilizing the accrual basis of accounting and economic resources measurement focus.

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.

MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2015

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 Position at June 30, 2015 and June 30, 2014 is as follows:

	<u>6/30/2015</u>	<u>6/30/2014</u>	<u>Variance</u>
Current Assets :			
Governmental Activities	\$ 236,531	\$ 259,485	\$ (22,954)
Business-type Activities	<u>52,835</u>	<u>47,961</u>	<u>4,874</u>
	<u>289,366</u>	<u>307,446</u>	<u>(18,080)</u>
Noncurrent Assets:			
Governmental Activities	139,869	141,803	(1,934)
Business-type Activities	<u>946,871</u>	<u>995,420</u>	<u>(48,549)</u>
	<u>1,086,740</u>	<u>1,137,223</u>	<u>(50,483)</u>
Total Assets	<u>\$ 1,376,106</u>	<u>\$ 1,444,669</u>	<u>\$ (68,563)</u>
Current Liabilities:			
Governmental Activities	\$ 21,271	\$ 11,386	\$ 9,885
Business-type Activities	<u>39,579</u>	<u>38,114</u>	<u>1,465</u>
	<u>60,850</u>	<u>49,500</u>	<u>11,350</u>
Noncurrent Liabilities:			
Governmental Activities	-	-	-
Business-type Activities	<u>101,165</u>	<u>120,098</u>	<u>(18,933)</u>
	<u>101,165</u>	<u>120,098</u>	<u>(18,933)</u>
Total Liabilities	<u>162,015</u>	<u>169,598</u>	<u>(7,583)</u>
Net Position:			
Invested in Capital Assets, net:			
Governmental Activities	139,869	141,803	(1,934)
Business-type Activities	<u>797,001</u>	<u>832,390</u>	<u>(35,389)</u>
	<u>936,870</u>	<u>974,193</u>	<u>(37,323)</u>
Restricted:			
Governmental Activities	-	-	-
Business-type Activities	<u>24,965</u>	<u>20,735</u>	<u>4,230</u>
	<u>24,965</u>	<u>20,735</u>	<u>4,230</u>
Unrestricted:			
Governmental Activities	215,260	248,099	(32,839)
Business-type Activities	<u>36,996</u>	<u>32,044</u>	<u>4,952</u>
	<u>252,256</u>	<u>280,143</u>	<u>(27,887)</u>
Net Position	<u>\$ 1,214,091</u>	<u>\$ 1,275,071</u>	<u>\$ (60,980)</u>

MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2015

- Total assets have decreased \$68,563 over the prior year which consists of a decrease of current assets in the amount of \$18,080 and a decrease in noncurrent assets in the amount of \$50,483. 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 \$7,583. 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 position decreased \$60,980, the difference between revenues and expenses.

A condensed version of the Statement of Activities follows:

	<u>6/30/2015</u>	<u>6/30/2014</u>	<u>Variance</u>
Governmental Activities:			
Program Revenues:			
General Government	\$ 38,948	\$ -	\$ 38,948
Police	8,115	7,320	795
Fire	16,601	4,586	12,015
Street and Alley	4,687	5,120	(433)
	<u>68,351</u>	<u>17,026</u>	<u>51,325</u>
General Revenues:			
Taxes	137,665	149,379	(11,714)
Investment Earnings	761	1,082	(321)
Miscellaneous	2,442	10,895	(8,453)
	<u>140,868</u>	<u>161,356</u>	<u>(20,488)</u>
Business-Type Activities:			
Program Revenues:			
Public Works - Water and Sewer	188,214	172,561	15,653
Trash Collections	45,156	43,826	1,330
	<u>233,370</u>	<u>216,387</u>	<u>16,983</u>
General Revenues:			
Investment Earnings	196	210	(14)
Miscellaneous	-	3,158	(3,158)
	<u>196</u>	<u>3,368</u>	<u>(3,172)</u>
Total Revenues	<u>442,785</u>	<u>398,137</u>	<u>44,648</u>

MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2015

Governmental Activities:

Expenses:

General Government	165,140	129,717	35,423
Library	1,586	1,990	(404)
Police	45,280	40,693	4,587
Fire	24,836	21,010	3,826
Street and Alley	7,150	6,251	899
	<u>243,992</u>	<u>199,661</u>	<u>44,331</u>

Business-Type Activities:

Expenses:

Public Works - Water and Sewer	215,218	209,385	5,833
Trash Collections	44,555	45,985	(1,430)
	<u>259,773</u>	<u>255,370</u>	<u>4,403</u>
Total Program Expenses	<u>503,765</u>	<u>455,031</u>	<u>48,734</u>
Change in Net Position	(60,980)	(56,894)	(4,086)
Net Position, Beginning	<u>1,275,071</u>	<u>1,331,965</u>	<u>(56,894)</u>
Net Position, Ending	<u>\$ 1,214,091</u>	<u>\$ 1,275,071</u>	<u>\$ (60,980)</u>

The amounts reported for the 2015 fiscal year in the above condensed Statement of Activities indicated variances. Revenues for the current year increased over the prior year in the amount of \$44,648 with expenses increased over the prior year in the amount of \$48,734. The revenues for governmental activities increased \$51,325 resulting from an increase in grants and taxes. Program revenues for Business-type activities decreased over the prior year from an increase in water and sewer revenues.

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 an unfavorable revenue variance of \$18,069, and an unfavorable expenditure variance of \$2,156, which combined for an unfavorable variance in the amount of \$20,225 in terms of net change to fund balance.

MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2015

Capital Assets and Debt Administration

Capital Assets

At June 30, 2015, the Town has \$1,038,747 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>6/30/2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>6/30/2015</u>
Buildings	104,938	-	-	104,938
Water and Sewer System	1,751,418	-	-	1,751,418
Machinery and Equipment	<u>278,405</u>	<u>35,252</u>	<u>-</u>	<u>313,657</u>
	2,134,761	35,252	-	2,170,013
Accumulated Depreciation	<u>1,040,943</u>	<u>90,323</u>	<u>-</u>	<u>1,131,266</u>
	<u>1,093,818</u>	<u>(55,071)</u>	<u>-</u>	<u>1,038,747</u>
	<u>1,093,818</u>	<u>(55,071)</u>	<u>-</u>	<u>1,038,747</u>

See Note 4 on page 25 for additional information on capital assets activity.

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 \$54,900 and a loan from Oklahoma Department of Commerce in the amount of \$46,875. During the year ending June 30, 2015, principal payments of \$17,725 and interest of \$701 were paid.

See Note 5 on page 26 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, 2015 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, 2015**

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 188,110	\$ 12,505	\$ 200,615
Accounts Receivable, Net	11,795	19,804	31,599
Investments, Unrestricted	<u>36,626</u>	<u>20,526</u>	<u>57,152</u>
Total Current Assets	<u>236,531</u>	<u>52,835</u>	<u>289,366</u>
Noncurrent Assets:			
Restricted Investments, Debt Reserve	-	24,965	24,965
Restricted Cash and Cash Equivalents, Meter Funds	-	23,028	23,028
Capital Assets, Net of Depreciation	<u>139,869</u>	<u>898,878</u>	<u>1,038,747</u>
Total Assets	<u>\$ 376,400</u>	<u>\$ 999,706</u>	<u>\$ 1,376,106</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable	\$ 21,271	\$ 17,067	\$ 38,338
Accrued Interest Payable	-	102	102
Notes Payable, Current	<u>-</u>	<u>22,410</u>	<u>22,410</u>
Total Current Liabilities	<u>21,271</u>	<u>39,579</u>	<u>60,850</u>
Noncurrent Liabilities:			
Customer Deposits Payable	-	21,800	21,800
Notes Payable	<u>-</u>	<u>79,365</u>	<u>79,365</u>
Total Noncurrent Liabilities	<u>-</u>	<u>101,165</u>	<u>101,165</u>
Total Liabilities	<u>21,271</u>	<u>140,744</u>	<u>162,015</u>
NET POSITION			
Invested in Capital Assets, Net of Related Debt	139,869	797,001	936,870
Restricted	-	24,965	24,965
Unrestricted	<u>215,260</u>	<u>36,996</u>	<u>252,256</u>
Total Net Position	<u>355,129</u>	<u>858,962</u>	<u>1,214,091</u>
Total Liabilities and Net Position	<u>\$ 376,400</u>	<u>\$ 999,706</u>	<u>\$ 1,376,106</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, 2015**

	<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	\$ 165,140	\$ -	\$ 38,948	\$ -	\$ (126,192)	\$ -	\$ (126,192)
Library	1,586	-	-	-	(1,586)	-	(1,586)
Public Safety:							
Police	45,280	8,115	-	-	(37,165)	-	(37,165)
Fire	24,836	-	16,601	-	(8,235)	-	(8,235)
Street and Alley	<u>7,150</u>	<u>-</u>	<u>4,687</u>	<u>-</u>	<u>(2,463)</u>	<u>-</u>	<u>(2,463)</u>
Total Governmental Activities	<u>243,992</u>	<u>8,115</u>	<u>60,236</u>	<u>-</u>	<u>(175,641)</u>	<u>-</u>	<u>(175,641)</u>
Business-type Activities:							
Public Works - Water and Sewer	215,218	188,214	-	-	-	(27,004)	(27,004)
Trash Collections	<u>44,555</u>	<u>45,156</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>601</u>	<u>601</u>
Total Business-type Activities	<u>259,773</u>	<u>233,370</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(26,403)</u>	<u>(26,403)</u>
Total	\$ <u><u>503,765</u></u>	\$ <u><u>241,485</u></u>	\$ <u><u>60,236</u></u>	\$ <u><u>-</u></u>	\$ <u><u>(175,641)</u></u>	\$ <u><u>(26,403)</u></u>	\$ <u><u>(202,044)</u></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, 2015**

	Net (Expenses) Revenue and Changes in Net Assets		
	Governmental <u>Activities</u>	Business-type <u>Activities</u>	<u>Total</u>
Program Revenues:			
Expenses (Over) Under Revenues	\$ <u>(175,641)</u>	\$ <u>(26,403)</u>	\$ <u>(202,044)</u>
General Revenues:			
Taxes:			
Sales Tax	112,649	-	112,649
Franchise Tax	12,319	-	12,319
Intergovernmental -			
State Alcoholic Beverage Tax	12,697	-	12,697
Investments Earnings	761	196	957
Miscellaneous	<u>2,442</u>	<u>-</u>	<u>2,442</u>
Total General Revenues	<u>140,868</u>	<u>196</u>	<u>141,064</u>
Changes in Net Assets	(34,773)	(26,207)	(60,980)
Net Position at Beginning of Year	<u>389,902</u>	<u>885,169</u>	<u>1,275,071</u>
Net Position at End of Year	\$ <u><u>355,129</u></u>	\$ <u><u>858,962</u></u>	\$ <u><u>1,214,091</u></u>

See accompanying notes to the basic financial statements.

**TOWN OF RED OAK, OKLAHOMA
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2015**

	<u>General Fund</u>	<u>Street/Alley & Fire Dept. Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>			
Current Assets:			
Cash	\$ 162,317	\$ 25,793	\$ 188,110
Accounts Receivable, Net	11,447	348	11,795
Investments, Unrestricted	36,626	-	36,626
Total Current Assets	\$ 210,390	\$ 26,141	\$ 236,531
 LIABILITIES AND FUND BALANCES			
Current Liabilities:			
Accounts Payable	\$ 21,271	\$ -	\$ 21,271
Total Current Liabilities	21,271	-	21,271
 Fund Balances:			
Unreserved Fund Balance	189,119	26,141	215,260
Total Fund Balances	189,119	26,141	215,260
 Total Liabilities and Fund Balances	 \$ 210,390	 \$ 26,141	
 <i>Capital Assets, net of accumulated depreciation, used in Governmental Activities are not current financial resources and therefore are not reported in the governmental funds.</i>			 139,869
Net Assets of Governmental Activities			\$ 355,129

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, 2015**

	<u>General</u> <u>Fund</u>	<u>Street/Alley</u> <u>& Fire Dept.</u> <u>Fund</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
Revenues:			
Taxes	\$ 137,665	\$ 4,687	\$ 142,352
Fines and Forfeitures	8,115	-	8,115
Operating Grant - ODOC	18,180	-	18,180
Operating Grants and Contributions	20,768	16,601	37,369
Miscellaneous	2,442	-	2,442
Interest	761	-	761
Total Revenues	187,931	21,288	209,219
Current Expenditures:			
General Government			
Personal Services	13,654	-	13,654
Maintenance and Operations	118,040	33,902	151,942
Operating Grant - ODOC	18,180	-	18,180
Capital Outlay	11,417	-	11,417
Police			
Salaries	26,624	-	26,624
Maintenance and Operations	18,656	-	18,656
Library			
Maintenance and Operations	1,585	-	1,585
Total Expenditures	208,156	33,902	242,058
Other Financing Sources and Uses:			
Capital Grants	-	-	-
Total Other Financing Sources	-	-	-
Net Change in Fund Balance	(20,225)	(12,614)	(32,839)
Fund Balance, Beginning	209,344	38755	
Fund Balance, End	\$ 189,119	\$ 26,141	
Adjustments for the Statement of Activities:			
<i>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.</i>			
Change in Net Assets			\$ (1,934)
			\$ (34,773)

See accompanying notes to the basic financial statements.

Exhibit E

**TOWN OF RED OAK, OKLAHOMA
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
JUNE 30, 2015**

	Enterprise Funds
ASSETS	
Current Assets:	
Cash	\$ 12,505
Accounts Receivable, Net	19,804
Investments, Unrestricted	20,526
Total Current Assets	<u>52,835</u>
Noncurrent Assets:	
Restricted Investments, Debt Reserve	24,965
Restricted Cash, Meter Funds	23,028
Capital Assets, Net of Depreciation	898,878
Total Assets	<u>\$ 999,706</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	\$ 17,067
Accrued Interest Payable	102
Notes Payable, Current Portion	22,410
Total Current Liabilities	<u>39,579</u>
Noncurrent Liabilities:	
Customer Deposits Payable	21,800
Notes Payable, Less Current Maturities	79,365
Total Noncurrent Liabilities	<u>101,165</u>
Total Liabilities	<u>140,744</u>
NET POSITION	
Invested in Capital Assets, Net of Related Debt	797,001
Restricted	24,965
Unrestricted	36,996
Total Net Position	<u>858,962</u>
Total Liabilities and Net Position	<u>\$ 999,706</u>

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, 2015**

		Enterprise Funds
Operating Revenues:		
Charges for services - Water	\$	152,039
Charges for services - Sewer		36,175
Charges for services - Trash Collections		45,156
Miscellaneous		-
Total Revenues		233,370
Operating Expenses:		
Management Services		144,751
Salaries and Wages		8,589
Trash Service		44,555
Repairs and Maintenance		2,755
Materials and Supplies		1,533
Other Services and Charges		3,752
Depreciation		53,137
Total Expenditures		259,072
Net Operating Income		(25,702)
Non-operating Revenue(Expense)		
Investment Income		196
Interest Expense		(701)
Total Non-operating Revenue(Expense)		(505)
Increase (Decrease) in Net Position		(26,207)
Net Position, Beginning		885,169
Net Position, Ending	\$	858,962

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, 2015

	Enterprise Funds
Cash Flows from Operating Activities:	
Receipts from Customers	\$ 229,865
Payments to Employees	(8,589)
Payments to Suppliers and Vendors	(197,066)
Net Cash Provided (Used) by Operating Activities	24,210
Cash Flows from Capital and Related Financing Activities:	
Principal Paid on Long-term Debt	(17,726)
Interest Paid on Long-term Debt	(723)
Net Cash Provided (Used) by Capital and Related Financing Activities	(18,449)
Cash Flows from Investing Activities:	
Receipts of Interest Income	196
Sale of Investments	(133)
Net Cash Provided (Used) from Investing Activities	63
Net Increase (Decrease) in Cash and Cash Equivalents	5,824
Cash and Cash Equivalents, Beginning	54,674
Cash and Cash Equivalents, Ending	\$ 60,498
Cash and Cash Equivalents	\$ 12,505
Restricted Investments, Debt Reserve	24,965
Restricted Cash, Meter Funds	23,028
	\$ 60,498

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, 2015**

**Enterprise
Funds**

**Reconciliation of Operating Income to Net Cash
Provided (Used) by Operating Activities:**

Operating Income (Loss)	\$ <u>(25,702)</u>
Adjustments to reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Depreciation	53,137
Change in Assets and Liabilities:	
Accounts Receivable	(3,505)
Accounts Payable	<u>280</u>
Total Adjustments	<u>49,912</u>
Net Cash Provided (Used) by Operating Activities	\$ <u><u>24,210</u></u>

See accompanying notes to the basic financial statements.

TOWN OF RED OAK, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

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.

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:

**TOWN OF RED OAK, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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.

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.

TOWN OF RED OAK, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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.

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.

**TOWN OF RED OAK, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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.

Long-term Debt:

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business type resources are reported as liabilities in the government-wide statements. The long-term debt currently consists of bond and notes payable by the ROPWA.

Equity Classifications:

Government-wide Statements

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

- 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 - 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 - 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.

TOWN OF RED OAK, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**Revenues, Expenditures, and Expenses***Sales Tax:*

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

Operating Revenues and Expenses:

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

Expenditures/Expenses:

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

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

Government Funds - By Character

Current

Capital Outlay

Proprietary Fund - By Operating and Non-operating.

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to 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, 2015, and reported at fair value are as follow:

<u>TYPE</u>	<u>Carring Value</u>
Deposits:	
Demand Deposits	\$ 270,158
Investments:	
Certificates of Deposit	35,602
Total Deposits and Investments	<u>305,760</u>
Reconciliation to Statement of Net Assets:	
Cash and Cash Equivalents	200,615
Investments, Unrestricted	57,152
Restricted Cash and Cash Equivalents, Meter Funds	23,028
Restricted Investments, Debt Reserve	24,965
	<u>\$ 305,760</u>

TOWN OF RED OAK, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

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 \$306,050 at June 30, 2015, 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 has 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.

Concentration of Investment Credit Risk - The Town places no limit on the amount it may invest in any one issuer. At June 30, 2015, the Town had limited concentration of credit risk because the investments consist of Certificates of Deposit.

TOWN OF RED OAK, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable in the enterprise fund represent utility billings at June 30, 2015. 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, 2015 is as follows:

	Balance				Balance
	<u>6/30/2014</u>	<u>Additions</u>	<u>Deletions</u>		<u>6/30/2015</u>
<i>Governmental Activities:</i>					
Buildings	\$ 94,380	\$ -	\$ -		\$ 94,380
Machinery and Equipment	238,697	35,252	-		273,949
	<u>333,077</u>	<u>35,252</u>	<u>-</u>		<u>368,329</u>
Less: Accumulated Depreciation					
Buildings	33,330	4,112	-		37,442
Machinery and Equipment	157,944	33,074	-		191,018
Total Accumulated Depreciation	<u>191,274</u>	<u>37,186</u>	<u>-</u>		<u>228,460</u>
	<u>141,803</u>	<u>(1,934)</u>	<u>-</u>		<u>139,869</u>
<i>Business-type Activities:</i>					
Depreciable Assets:					
Buildings	10,558	-	-		10,558
Machinery and Equipment	39,708	-	-		39,708
Water and Sewer System	1,751,418	-	-		1,751,418
	<u>1,801,684</u>	<u>-</u>	<u>-</u>		<u>1,801,684</u>
Less: Accumulated Depreciation					
Buildings	5,807	528	-		6,335
Water and Sewer System	808,424	2,135	-		810,559
Machinery and Equipment	35,438	50,474	-		85,912
Total Accumulated Depreciation	<u>849,669</u>	<u>53,137</u>	<u>-</u>		<u>902,806</u>
	<u>952,015</u>	<u>(53,137)</u>	<u>-</u>		<u>898,878</u>
	<u>\$ 1,093,818</u>	<u>\$ (55,071)</u>	<u>\$ -</u>		<u>\$ 1,038,747</u>

Depreciation expense for June 30, 2015 is \$90,323.

TOWN OF RED OAK, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

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>6/30/2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>6/30/2015</u>	<u>One Year</u>	
<i>Business-type Activities:</i>						
ODOC long-term debt	\$ 53,125	\$ -	\$ 6,250	\$ 46,875	\$	6,250
First Mortgage Revenue Bonds	66,375	-	11,475	54,900		16,160
	<u>\$ 119,500</u>	<u>\$ -</u>	<u>\$ 17,725</u>	<u>\$ 101,775</u>	<u>\$</u>	<u>22,410</u>

Maturities of long-term debt are as follow:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	<u>Payments</u>	<u>Payments</u>	
6/30/2016	\$ 22,410	\$ 769	\$ 23,179
6/30/2017	22,656	523	23,179
6/30/2018	22,904	275	23,179
6/30/2019	11,930	43	11,973
6/30/2020	6,250	-	6,250
6/30/2021 to 6/30/2023	15,625	-	15,625
	<u>\$ 101,775</u>	<u>\$ 1,610</u>	<u>\$ 103,385</u>

NOTE 6 - LITIGATION

Neither the Town nor the Authority has any known pending claims or lawsuits against them as of June 30, 2015, the outcome of which would result in a material liability or damage claim.

**TOWN OF RED OAK, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

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, 2015

GENERAL:

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:				
Taxes	\$ 150,000	\$ 150,000	\$ 137,665	\$ (12,335)
Fines and Forfeitures	8,500	8,500	8,115	(385)
Grants	5,000	5,000	38,948	33,948
Miscellaneous	15,000	15,000	2,442	(12,558)
Interest	1,000	1,000	761	(239)
Reserve Usage	26,500	26,500	-	(26,500)
Total Revenues	206,000	206,000	187,931	(18,069)
Expenditures:				
General Government				
Personal Services	16,000	16,000	13,654	2,346
Maintenance and Operations	40,000	40,000	70,040	(30,040)
Capital Outlay	18,000	18,000	11,417	6,583
Grant Expenditures	5,000	5,000	18,180	(13,180)
Transfer to Other Funds	48,000	48,000	48,000	-
Police				
Salaries	28,000	28,000	26,624	1,376
Maintenance and Operations	15,000	15,000	18,656	(3,656)
Capital Outlay	33,500	33,500	-	33,500
Library				
Maintenance and Operations	2,500	2,500	1,585	915
Total Expenditures	206,000	206,000	208,156	(2,156)
Net Change in Fund Balance	\$ -	\$ -	\$ (20,225)	\$ (20,225)

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, 2015**

STREET & ALLEY:

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:				
Taxes	\$ 5,500	\$ 5,500	\$ 4,687	\$ (813)
Total Revenues	<u>5,500</u>	<u>5,500</u>	<u>4,687</u>	<u>(813)</u>
Expenditures:				
Maintenance and Operations	5,000	5,000	6,780	(1,780)
Capital Outlay	500	500	-	500
Total Expenditures	<u>5,500</u>	<u>5,500</u>	<u>6,780</u>	<u>(1,280)</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,093)</u>	<u>\$ (2,093)</u>

FIRE:

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:				
Donations	\$ 2,000	\$ 2,000	\$ -	\$ (2,000)
Grant Revenues	5,000	5,000	16,601	11,601
Miscellaneous	-	-	-	-
Total Revenues	<u>7,000</u>	<u>7,000</u>	<u>16,601</u>	<u>9,601</u>
Expenditures:				
Maintenance and Operations	7,000	7,000	27,122	(20,122)
Capital Outlay	-	-	-	-
Total Expenditures	<u>7,000</u>	<u>7,000</u>	<u>27,122</u>	<u>(20,122)</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (10,521)</u>	<u>\$ (10,521)</u>

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, 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, the financial statements of the Town of Red Oak, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the basic financial statements and have issued my report thereon dated January 15, 2016.

Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I considered the Town of Red Oak's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, I do not express an opinion on the effectiveness of the Town's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weakness or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weakness. However, material weaknesses may exist that have not been identified. I did identify certain deficiencies in internal control, as described in the accompanying schedule of findings and questioned costs as Finding #2015-01 that I consider to be a significant deficiency.

Compliance and Other Matters

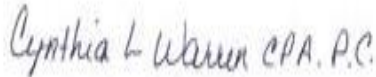
As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, I performed tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination 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*.

Town of Red Oak's Response to Findings

The Town of Red Oak's response to the findings identified in my audit is described in the accompanying schedule of findings and questioned costs. The Town of Red Oak's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

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



Cynthia L Warren CPA, P.C.
Eufaula, Oklahoma
January 15, 2016

**TOWN OF RED OAK, OKLAHOMA
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015**

#2015-01 *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.

Response from Management:

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.