

**TOWN OF RED OAK, OKLAHOMA**  
**REPORT ON AUDIT OF FINANCIAL STATEMENTS**  
**AND**  
**SUPPLEMENTAL DATA FOR THE**  
**TWELVE MONTHS ENDED JUNE 30, 2016**

**CYNTHIA L WARREN CPA, P.C.**

**Eufaula, Oklahoma 74432**

**TOWN OF RED OAK  
RED OAK, OKLAHOMA  
JUNE 30, 2016**

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CYNTHIA L WARREN CPA, P.C.

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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, 2016, which collectively comprise the Town's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note A: this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 respective modified cash basis financial position of the Town of Red Oak as of June 30, 2016, and the respective changes in modified cash basis financial position and its cash flows for the year then ended in conformity with the modified cash basis of accounting described in Note A.

**Basis of Accounting**

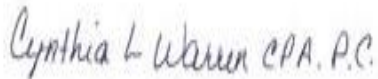
Note A of the notes to the financial statements described the basis of accounting. The Town of Red Oak prepares its financial statements on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. My opinions are not modified with respect to this matter.

**Other Matters**

Management's Discussion and Analysis was not included in the financial statements. My audit was conducted for the purpose of forming opinion on the financial statements that collectively comprise the Town of Red Oak's basis financial statements. The Budgetary Comparison information located in the supplemental information section, is the responsibility of management and presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I do not express an opinion or provide any assurance on it.

**Report Issued in Accordance with *Government Auditing Standards***

In accordance with *Government Auditing Standards*, I have also issued a report dated December 31, 2017 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.  
Eufaula, Oklahoma  
December 31, 2017

**TOWN OF RED OAK, OKLAHOMA**  
**STATEMENT OF NET POSITION – MODIFIED CASH BASIS**  
**JUNE 30, 2016**

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and Cash Equivalents	\$ 203,094	\$ 28,753	\$ 231,847
Investments, Unrestricted	43,226	20,629	63,855
Total Current Assets	<u>246,320</u>	<u>49,382</u>	<u>295,702</u>
<b>Noncurrent Assets:</b>			
Restricted Investments, Debt Reserve	0	25,086	25,086
Restricted Cash and Cash Equivalents, Meter Funds	0	21,582	21,582
Capital Assets, Net of Depreciation	118,119	854,424	972,543
Total Assets	<u>\$ 364,439</u>	<u>\$ 950,474</u>	<u>\$ 1,314,913</u>
<b>LIABILITIES</b>			
<b>Current Liabilities:</b>			
Accrued Interest Payable	\$ 0	\$ 71	\$ 71
Notes Payable, Current	0	22,656	22,656
Total Current Liabilities	<u>0</u>	<u>22,727</u>	<u>22,727</u>
<b>Noncurrent Liabilities:</b>			
Customer Deposits Payable	0	21,800	21,800
Notes Payable	0	56,470	56,470
Total Noncurrent Liabilities	<u>0</u>	<u>78,270</u>	<u>78,270</u>
Total Liabilities	<u>0</u>	<u>100,997</u>	<u>100,997</u>
<b>NET POSITION</b>			
Invested in Capital Assets, Net of Related Debt	118,119	775,227	893,346
Restricted	0	25,086	25,086
Unrestricted	246,320	49,164	295,484
Total Net Position	<u>364,439</u>	<u>849,477</u>	<u>1,213,916</u>
Total Liabilities and Net Position	<u>\$ 364,439</u>	<u>\$ 950,474</u>	<u>\$ 1,314,913</u>

See accompanying notes to the basic financial statements.

Exhibit B

**TOWN OF RED OAK, OKLAHOMA  
STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS  
FOR THE TWELVE MONTHS ENDED JUNE 30, 2016**

	Program Revenues				Net (Expenses) Revenue and Changes in Net Assets		
	<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>
<b>Governmental Activities:</b>							
General Government	\$ 143,337	\$ 0	\$ 0	\$ 0	\$ (143,337)	\$ 0	\$ (143,337)
Library	1,631	0	0	0	(1,631)	0	(1,631)
Public Safety:							
Police	43,087	12,336	0	0	(30,751)	0	(30,751)
Fire	16,400	0	4,290	0	(12,110)	0	(12,110)
Street and Alley	4,405	0	5,490	0	1,085	0	1,085
<b>Total Governmental Activities</b>	<u>208,860</u>	<u>12,336</u>	<u>9,780</u>	<u>0</u>	<u>(186,744)</u>	<u>0</u>	<u>(186,744)</u>
<b>Business-type Activities:</b>							
Public Works - Water and Sewer	215,218	188,214	0	0	0	(27,004)	(27,004)
Trash Collections	44,555	45,156	0	0	0	601	601
<b>Total Business-type Activities</b>	<u>259,773</u>	<u>233,370</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(26,403)</u>	<u>(26,403)</u>
<b>Total</b>	<u>\$ 468,633</u>	<u>\$ 245,706</u>	<u>\$ 9,780</u>	<u>\$ 0</u>	<u>\$ (186,744)</u>	<u>\$ (26,403)</u>	<u>\$ (213,147)</u>

See accompanying notes to the basic financial statements.

**TOWN OF RED OAK, OKLAHOMA**  
**STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS, CONTINUED**  
**FOR THE TWELVE MONTHS ENDED JUNE 30, 2016**

	<u>Net (Expenses) Revenue</u> <u>and Changes in Net Assets</u>		
	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
<b>Program Revenues:</b>			
Expenses (Over) Under Revenues	\$ (186,744)	\$ (26,403)	\$ (213,147)
<b>General Revenues:</b>			
Taxes:			
Sales Tax	170,077	0	170,077
Franchise Tax	12,980	0	12,980
Intergovernmental -			
State Alcoholic Beverage Tax	15,035	0	15,035
Investments Earnings	791	196	987
Miscellaneous	6,719	0	6,719
Total General Revenues	<u>205,602</u>	<u>196</u>	<u>205,798</u>
Changes in Net Assets	18,858	(26,207)	(7,349)
Transfers In (Out)	(18,261)	18,261	0
Net Position at Beginning of Year	<u>363,842</u>	<u>857,423</u>	<u>1,221,265</u>
Net Position at End of Year	<u>\$ 364,439</u>	<u>\$ 849,477</u>	<u>\$ 1,213,916</u>

See accompanying notes to the basic financial statements.

**TOWN OF RED OAK, OKLAHOMA**  
**STATEMENT OF FUND BALANCES – MODIFIED CASH BASIS**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2016**

	<b>General Fund</b>	<b>Street/Alley &amp; Fire Dept Funds</b>	<b>Total Governmental Funds</b>
<b><u>ASSETS</u></b>			
<b>Current Assets:</b>			
Cash	\$ 183,032	\$ 20,062	\$ 203,094
Investments, Unrestricted	43,226	0	43,226
Total Current Assets	<u>\$ 226,258</u>	<u>\$ 20,062</u>	<u>\$ 246,320</u>
 <b>LIABILITIES AND FUND BALANCES</b>			
<b>Current Liabilities:</b>			
Accounts Payable	\$ 0	\$ 0	\$ 0
Total Current Liabilities	<u>0</u>	<u>0</u>	<u>0</u>
 <b>Fund Balances:</b>			
Unreserved Fund Balance	<u>226,258</u>	<u>20,062</u>	<u>246,320</u>
Total Fund Balances	<u>226,258</u>	<u>20,062</u>	<u>246,320</u>
 Total Liabilities and Fund Balances	 <u>\$ 226,258</u>	 <u>\$ 20,062</u>	
 <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>			 <u>118,119</u>
 Net Assets of Governmental Activities			 <u>\$ 364,439</u>

See accompanying notes to the basic financial statements.



**TOWN OF RED OAK, OKLAHOMA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES – MODIFIED CASH BASIS**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	<b>General</b>	<b>Street/Alley</b>	<b>Total</b>
	<b>Fund</b>	<b>&amp; Fire Dept</b>	<b>Governmental</b>
	<b><u>Fund</u></b>	<b><u>Fund</u></b>	<b><u>Funds</u></b>
<b>Revenues:</b>			
Taxes	\$ 198,092	\$ 5,490	\$ 203,582
Fines and Forfeitures	12,336	0	12,336
Operating Grants and Contributions	0	4,290	4,290
Miscellaneous	6,719	0	6,719
Interest	791	0	791
<b>Total Revenues</b>	<u>217,938</u>	<u>9,780</u>	<u>227,718</u>
<b>Current Expenditures:</b>			
<b>General Government</b>			
Personal Services	15,551	0	15,551
Maintenance and Operations	111,330	3,090	114,420
Capital Outlay	0	12,421	12,421
<b>Police</b>			
Salaries	25,519	0	25,519
Maintenance and Operations	17,568	0	17,568
Capital Outlay	0	0	0
<b>Library</b>			
Maintenance and Operations	1,631	0	1,631
<b>Total Expenditures</b>	<u>171,599</u>	<u>15,511</u>	<u>187,110</u>
<b>Other Financing Sources and Uses:</b>			
Capital Grants	0	0	0
Transfer - Interfund	(18,261)	0	(18,261)
<b>Total Other Financing Sources</b>	<u>(18,261)</u>	<u>0</u>	<u>(18,261)</u>
<b>Net Change in Fund Balance</b>	28,078	(5,731)	22,347
<b>Fund Balance, Beginning</b>	198,180	25,793	
<b>Fund Balance, End</b>	<u>\$ 226,258</u>	<u>\$ 20,062</u>	
<b>Adjustments for the Statement of Activities:</b>			
<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.</i>			
<b>Change in Net Assets</b>			<u>(21,750)</u>
			<u>\$ 597</u>

See accompanying notes to the basic financial statements.

**TOWN OF RED OAK, OKLAHOMA**  
**STATEMENT OF NET POSITION – MODIFIED CASH BASIS**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2016**

	<b>Enterprise Funds</b>
<b>ASSETS</b>	
<b>Current Assets:</b>	
Cash	\$ 28,753
Investments, Unrestricted	20,629
Total Current Assets	49,382
<b>Noncurrent Assets:</b>	
Restricted Investments, Debt Reserve	25,086
Restricted Cash, Meter Funds	21,582
Capital Assets, Net of Depreciation	854,424
Total Assets	\$ 950,474
<b>LIABILITIES</b>	
<b>Current Liabilities:</b>	
Accrued Interest Payable	\$ 71
Notes Payable, Current Portion	22,656
Total Current Liabilities	22,727
<b>Noncurrent Liabilities:</b>	
Customer Deposits Payable	21,800
Notes Payable, Less Current Maturities	56,470
Total Noncurrent Liabilities	78,270
Total Liabilities	100,997
<b>NET POSITION</b>	
Invested in Capital Assets, Net of Related Debt	775,227
Restricted	25,086
Unrestricted	49,164
Total Net Position	849,477
Total Liabilities and Net Position	\$ 950,474

See accompanying notes to the basic financial statements.

**TOWN OF RED OAK, OKLAHOMA  
STATEMENT OF REVENUES, EXPENSES AND CHANGES  
IN NET POSITION – MODIFIED CASH BASIS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2016**

		<b>Enterprise Funds</b>
<b>Operating Revenues:</b>		
Charges for services - Water	\$	147,408
Charges for services - Sewer		35,993
Charges for services - Trash Collections		45,361
Miscellaneous		0
<b>Total Revenues</b>		228,762
<b>Operating Expenses:</b>		
Management Services		147,878
Salaries and Wages		10,267
Trash Service		45,330
Repairs and Maintenance		1,697
Materials and Supplies		1,682
Other Services and Charges		3,098
Depreciation		44,454
<b>Total Expenditures</b>		254,406
<b>Net Operating Income</b>		(25,644)
<b>Non-operating Revenue(Expense)</b>		
Transfers In (Out)		18,261
Investment Income		174
Interest Expense		(737)
<b>Total Non-operating Revenue(Expense)</b>		17,698
<b>Increase (Decrease) in Net Position</b>		(7,946)
<b>Net Position, Beginning</b>		857,423
<b>Net Position, Ending</b>	\$	849,477

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, 2016**

	<b>Enterprise Funds</b>
<b>Cash Flows from Operating Activities:</b>	
Receipts from Customers	\$ 228,762
Payments to Employees	(10,267)
Payments to Suppliers and Vendors	(199,685)
Net Cash Provided (Used) by Operating Activities	18,810
<b>Cash Flows from Capital and Related Financing Activities:</b>	
Principal Paid on Long-term Debt	(21,451)
Interest Paid on Long-term Debt	(768)
Net Cash Provided (Used) by Capital and Related Financing Activities	(22,219)
<b>Cash Flows from Investing Activities:</b>	
Receipts of Interest Income	174
Transfer In (Out)	18,261
Sale of Investments	(103)
Net Cash Provided (Used) from Investing Activities	18,332
Net Increase (Decrease) in Cash and Cash Equivalents	14,923
Cash and Cash Equivalents, Beginning	60,498
Cash and Cash Equivalents, Ending	\$ <u><u>75,421</u></u>
Cash and Cash Equivalents	\$ 28,753
Restricted Investments, Debt Reserve	25,086
Restricted Cash, Meter Funds	21,582
	\$ <u><u>75,421</u></u>
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</b>	
Operating Income (Loss)	\$ (25,644)
Adjustments to reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Depreciation	44,454
Net Cash Provided (Used) by Operating Activities	\$ 18,810

See accompanying notes to the basic financial statements.

**TOWN OF RED OAK, OKLAHOMA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**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**

*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, 2016**

**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 and Fire.

*Proprietary Fund Types:*

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

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

**Use of Estimates**

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

**TOWN OF RED OAK, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

**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.

***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

**TOWN OF RED OAK, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

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.

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, 2016**

**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 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, 2016, and reported at fair value are as follow:

<u><b>TYPE</b></u>	<u><b>Carrying Value</b></u>
<b>Deposits:</b>	
Demand Deposits	\$ 306,612
<b>Investments:</b>	
Certificates of Deposit	35,758
<b>Total Deposits and Investments</b>	<u>342,370</u>
<b>Reconciliation to Statement of Net Assets:</b>	
Cash and Cash Equivalents	231,847
Investments, Unrestricted	63,855
Restricted Cash and Cash Equivalents, Meter Funds	21,582
Restricted Investments, Debt Reserve	25,086
	<u>\$ 342,370</u>

**TOWN OF RED OAK, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016**

**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 \$343,404 at June 30, 2016, 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 laws.

*Concentration of Investment Credit Risk* - The Town places no limit on the amount it may invest in any one issuer. At June 30, 2016, 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, 2016**

**NOTE 3 - CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2016 is as follows:

	<b>Balance</b>		<b>Additions</b>		<b>Deletions</b>		<b>Balance</b>
<i>Governmental Activities:</i>	<b>6/30/2015</b>						<b>6/30/2016</b>
Buildings	\$ 94,380	\$	0	\$	0	\$	94,380
Machinery and Equipment	273,949		12,421		0		286,370
	<u>368,329</u>		<u>12,421</u>		<u>0</u>		<u>380,750</u>
Less: Accumulated Depreciation							
Buildings	37,442		4,112		0		41,554
Machinery and Equipment	191,018		30,059		0		221,077
Total Accumulated Depreciation	<u>228,460</u>		<u>34,171</u>		<u>0</u>		<u>262,631</u>
	<u>139,869</u>		<u>(21,750)</u>		<u>0</u>		<u>118,119</u>
<i>Business-type Activities:</i>							
Depreciable Assets:							
Buildings	10,558		0		0		10,558
Machinery and Equipment	39,708		0		0		39,708
Water and Sewer System	1,751,418		0		0		1,751,418
	<u>1,801,684</u>		<u>0</u>		<u>0</u>		<u>1,801,684</u>
Less: Accumulated Depreciation							
Buildings	6,335		528		0		6,863
Water and Sewer System	810,559		41,790		0		852,349
Machinery and Equipment	85,912		2,136		0		88,048
Total Accumulated Depreciation	<u>902,806</u>		<u>44,454</u>		<u>0</u>		<u>947,260</u>
	<u>898,878</u>		<u>(44,454)</u>		<u>0</u>		<u>854,424</u>
	<u>\$ 1,038,747</u>	\$	<u>(66,204)</u>	\$	<u>0</u>	\$	<u>972,543</u>

Depreciation expense for June 30, 2016 is \$978,625.

**TOWN OF RED OAK, OKLAHOMA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 4 - 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>
	<i>6/30/2015</i>	<i>Increases</i>	<i>Decreases</i>		<i>6/30/2016</i>	<i>One Year</i>
<i>Business-type Activities:</i>						
ODOC long-term debt	\$ 46,875	\$ 0	\$ 6,250		\$ 40,625	\$ 6,250
First Mortgage Revenue Bonds	54,901	0	16,400		38,501	16,406
	<u>\$ 101,776</u>	<u>\$ 0</u>	<u>\$ 22,650</u>		<u>\$ 79,126</u>	<u>\$ 22,656</u>

Maturities of long-term debt are as follow:

<i>Year Ending</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
	<i>Payments</i>	<i>Payments</i>	
6/30/2017	\$ 22,656	\$ 523	\$ 23,179
6/30/2018	22,904	275	23,179
6/30/2019	11,690	43	11,733
6/30/2020	6,250	0	6,250
6/30/2021	6,250	0	6,250
6/30/2022 to 6/30/2023	9,376	0	9,376
	<u>\$ 79,126</u>	<u>\$ 841</u>	<u>\$ 79,967</u>

**NOTE 5 - LITIGATION**

Neither the Town nor the Authority has any known pending claims or lawsuits against them as of June 30, 2016, 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, 2016**

**NOTE 6 – 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 7 - 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.

**NOTE 8 – CHANGE IN ACCOUNTING METHOD**

During the year ending June 30, 2016, the Town of Red Oak and Red Oak Public Works Authority has changed its basis of accounting from the Accrual Method of Accounting to a Modified Cash Basis. Beginning Equity Accounts have been adjusted to account for this change.

**TOWN OF RED OAK, OKLAHOMA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2016**

**GENERAL:**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Revenues:</b>				
Taxes	\$ 175,000	\$ 175,000	\$ 198,092	\$ 23,092
Fines and Forfeitures	8,500	8,500	12,336	3,836
Grants	10,000	10,000	0	(10,000)
Miscellaneous	5,000	5,000	6,719	1,719
Interest	1,000	1,000	791	(209)
Reserve Usage	0	0	0	0
<b>Total Revenues</b>	<u>199,500</u>	<u>199,500</u>	<u>217,938</u>	<u>18,438</u>
<b>Expenditures:</b>				
<b>General Government</b>				
Personal Services	13,000	13,000	15,551	(2,551)
Maintenance and Operations	75,000	75,000	111,330	(36,330)
Capital Outlay	10,000	10,000	0	10,000
Grant Expenditures	10,000	10,000	0	10,000
Transfer to Other Funds	48,000	48,000	18,261	29,739
<b>Police</b>				
Salaries	27,000	27,000	25,519	1,481
Maintenance and Operations	15,000	15,000	17,568	(2,568)
Capital Outlay	0	0	0	0
<b>Library</b>				
Maintenance and Operations	1,500	1,500	1,631	(131)
<b>Total Expenditures</b>	<u>199,500</u>	<u>199,500</u>	<u>189,860</u>	<u>9,640</u>
<b>Net Change in Fund Balance</b>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 28,078</u>	<u>\$ 28,078</u>

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, 2016**

**STREET & ALLEY:**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Revenues:</b>				
Taxes	\$ 5,500	\$ 5,500	\$ 5,490	\$ (10)
<b>Total Revenues</b>	<u>5,500</u>	<u>5,500</u>	<u>5,490</u>	<u>(10)</u>
<b>Expenditures:</b>				
Maintenance and Operations	5,000	5,000	1,551	3,449
Capital Outlay	<u>500</u>	<u>500</u>	<u>12,421</u>	<u>(11,921)</u>
<b>Total Expenditures</b>	<u>5,500</u>	<u>5,500</u>	<u>13,972</u>	<u>(8,472)</u>
<b>Net Change in Fund Balance</b>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (8,482)</u>	<u>\$ (8,482)</u>

**FIRE:**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Revenues:</b>				
Donations	\$ 2,000	\$ 2,000	\$ 0	\$ (2,000)
Grant Revenues	5,000	5,000	4,290	(710)
Miscellaneous	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total Revenues</b>	<u>7,000</u>	<u>7,000</u>	<u>4,290</u>	<u>(2,710)</u>
<b>Expenditures:</b>				
Maintenance and Operations	7,000	7,000	1,539	5,461
Capital Outlay	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total Expenditures</b>	<u>7,000</u>	<u>7,000</u>	<u>1,539</u>	<u>5,461</u>
<b>Net Change in Fund Balance</b>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,751</u>	<u>\$ 2,751</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, 2016, and the related notes to the financial statements, which collectively comprise the basic financial statements and have issued my report thereon dated December 31, 2017.

**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 #2016-01 that I consider to be a significant deficiency.



**Compliance and Other Matters**

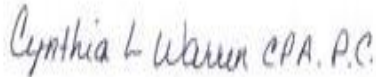
As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, I performed tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination 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  
December 31, 2017

**TOWN OF RED OAK, OKLAHOMA  
SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2016**

**#2016-01      *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.