

TOWN OF RED OAK, OKLAHOMA
REPORT ON AUDIT OF FINANCIAL STATEMENTS
AND
SUPPLEMENTAL DATA FOR THE
TWELVE MONTHS ENDED JUNE 30, 2017

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Eufaula, Oklahoma 74432

**TOWN OF RED OAK
RED OAK, OKLAHOMA
JUNE 30, 2017**

Table of Contents

FINANCIAL SECTION:

Independent Auditor's Report	3
Basic Financial Statements:	
Exhibit A - Statement of Net Position – Modified Cash Basis	5
Exhibit B - Statement of Activities – Modified Cash Basis	6
Exhibit C - Balance Sheet - Governmental Funds – Modified Cash Basis	8
Exhibit D - Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds – Modified Cash Basis	9
Exhibit E - Statement of Net Position - Proprietary Funds – Modified Cash Basis	10
Exhibit F - Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds – Modified Cash Basis	11
Exhibit G - Statement of Cash Flows - Proprietary Funds – Modified Cash Basis	12
Notes to the Financial Statements	13

REQUIRED SUPPLEMENTARY INFORMATION:

Schedule 1 - Budgetary Comparison, General Fund	22
Schedule 2 - Budgetary Comparison, Street & Alley	23
Schedule 2 – Budgetary Comparison, Fire	23

INTERNAL CONTROL & COMPLIANCE SECTION:

Independent Auditor's Report on the Internal Control over Financial Reporting And Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	24
Schedule of Findings	25
Schedule of Responses and Corrective Actions	26

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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, 2017, 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, 2017, 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

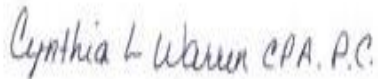
Note A of the notes to the financial statements described the basis of accounting. The Town of Red Oak prepares its financial statements on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. My opinions 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 May 31, 2018 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
May 31, 2018

TOWN OF RED OAK, OKLAHOMA
STATEMENT OF NET POSITION – MODIFIED CASH BASIS
JUNE 30, 2017

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 241,698	\$ 53,565	\$ 295,263
Investments, Unrestricted	48,347	20,732	69,079
Total Current Assets	<u>290,045</u>	<u>74,297</u>	<u>364,342</u>
Noncurrent Assets:			
Restricted Investments, Debt Reserve	0	0	0
Restricted Cash and Cash Equivalents, Meter Funds	0	22,708	22,708
Capital Assets, Net of Depreciation	91,637	812,746	904,383
Total Assets	<u>\$ 381,682</u>	<u>\$ 909,751</u>	<u>\$ 1,291,433</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable	\$ 0	\$ 0	\$ 0
Accrued Interest Payable	0	0	0
Notes Payable, Current	0	6,250	6,250
Total Current Liabilities	<u>0</u>	<u>6,250</u>	<u>6,250</u>
Noncurrent Liabilities:			
Customer Deposits Payable	0	21,800	21,800
Notes Payable	0	28,126	28,126
Total Noncurrent Liabilities	<u>0</u>	<u>49,926</u>	<u>49,926</u>
Total Liabilities	<u>0</u>	<u>56,176</u>	<u>56,176</u>
NET POSITION			
Invested in Capital Assets, Net of Related Debt	91,637	778,370	870,007
Unrestricted	290,045	75,205	365,250
Total Net Position	<u>381,682</u>	<u>853,575</u>	<u>1,235,257</u>
Total Liabilities and Net Position	<u>\$ 381,682</u>	<u>\$ 909,751</u>	<u>\$ 1,291,433</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, 2017**

			<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	\$ 137,548	\$ 0	\$ 0	\$ 0	\$ (137,548)	\$ 0	\$ (137,548)
Library	5,176	0	9,945	0	4,769	0	4,769
Public Safety:							
Police	39,192	7,826	0	0	(31,366)	0	(31,366)
Fire	10,121	0	3,817	0	(6,304)	0	(6,304)
Street and Alley	3,093	0	3,998	0	905	0	905
Total Governmental Activities	<u>195,130</u>	<u>7,826</u>	<u>17,760</u>	<u>0</u>	<u>(169,544)</u>	<u>0</u>	<u>(169,544)</u>
Business-type Activities:							
Public Works - Water and Sewer	219,037	192,668	0	0	0	(26,369)	(26,369)
Trash Collections	45,415	46,857	0	0	0	1,442	1,442
Total Business-type Activities	<u>264,452</u>	<u>239,525</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(24,927)</u>	<u>(24,927)</u>
Total	<u>\$ 459,582</u>	<u>\$ 247,351</u>	<u>\$ 17,760</u>	<u>\$ 0</u>	<u>\$ (169,544)</u>	<u>\$ (24,927)</u>	<u>\$ (194,471)</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, 2017

	<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>
Program Revenues:			
Expenses (Over) Under Revenues	\$ (169,544)	\$ (24,927)	\$ (194,471)
General Revenues:			
Taxes:			
Sales Tax	183,324	0	183,324
Franchise Tax	12,212	0	12,212
Intergovernmental -			
State Alcoholic Beverage Tax	14,588	0	14,588
Investments Earnings	1,217	318	1,535
Miscellaneous	4,153	0	4,153
Total General Revenues	<u>215,494</u>	<u>318</u>	<u>215,812</u>
Changes in Net Assets	45,950	(24,609)	21,341
Transfers In (Out)	(28,707)	28,707	0
Net Position at Beginning of Year	<u>364,439</u>	<u>849,477</u>	<u>1,213,916</u>
Net Position at End of Year	<u>\$ 381,682</u>	<u>\$ 853,575</u>	<u>\$ 1,235,257</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, 2017

	General Fund	Street/Alley & Fire Dept Funds	Total Governmental Funds
<u>ASSETS</u>			
Current Assets:			
Cash	\$ 216,788	\$ 24,910	\$ 241,698
Accounts Receivable, Net	0	0	0
Investments, Unrestricted	48,347	0	48,347
Total Current Assets	\$ 265,135	\$ 24,910	\$ 290,045
 LIABILITIES AND FUND BALANCES			
Current Liabilities:			
Accounts Payable	\$ 0	\$ 0	\$ 0
Total Current Liabilities	0	0	0
 Fund Balances:			
Unreserved Fund Balance	265,135	24,910	290,045
Total Fund Balances	265,135	24,910	290,045
Total Liabilities and Fund Balances	\$ 265,135	\$ 24,910	
<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>			91,637
Net Assets of Governmental Activities		\$ 381,682	

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, 2017**

	General Fund	Street/Alley & Fire Dept Fund	Total Governmental Funds
Revenues:			
Taxes	\$ 210,124	\$ 3,998	\$ 214,122
Fines and Forfeitures	7,826	0	7,826
Library Revenue	9,945	0	9,945
Operating Grants and Contributions	0	3,817	3,817
Miscellaneous	3,933	220	4,153
Interest	1,217	0	1,217
Total Revenues	<u>233,045</u>	<u>8,035</u>	<u>241,080</u>
Current Expenditures:			
General Government			
Personal Services	14,333	0	14,333
Maintenance and Operations	106,760	3,187	109,947
Operating Grant - ODOC	0	0	0
Capital Outlay	0	0	0
Police			
Salaries	28,878	0	28,878
Maintenance and Operations	10,314	0	10,314
Capital Outlay	0	0	0
Library			
Maintenance and Operations	5,176	0	5,176
Total Expenditures	<u>165,461</u>	<u>3,187</u>	<u>168,648</u>
Other Financing Sources and Uses:			
Capital Grants	0	0	0
Transfer - Interfund	(28,707)	0	(28,707)
Total Other Financing Sources	<u>(28,707)</u>	<u>0</u>	<u>(28,707)</u>
Net Change in Fund Balance	38,877	4,848	43,725
Fund Balance, Beginning	226,258	20,062	
Fund Balance, End	<u>\$ 265,135</u>	<u>\$ 24,910</u>	
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.</i>			
			<u>(26,482)</u>
Change in Net Assets			<u>\$ 17,243</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, 2017

	<u>Enterprise Funds</u>
ASSETS	
Current Assets:	
Cash	\$ 53,565
Accounts Receivable, Net	0
Investments, Unrestricted	<u>20,732</u>
Total Current Assets	<u>74,297</u>
Noncurrent Assets:	
Restricted Investments, Debt Reserve	0
Restricted Cash, Meter Funds	22,708
Capital Assets, Net of Depreciation	<u>812,746</u>
Total Assets	<u>\$ 909,751</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	\$ 0
Accrued Interest Payable	0
Notes Payable, Current Portion	<u>6,250</u>
Total Current Liabilities	<u>6,250</u>
Noncurrent Liabilities:	
Customer Deposits Payable	21,800
Notes Payable, Less Current Maturities	<u>28,126</u>
Total Noncurrent Liabilities	<u>49,926</u>
Total Liabilities	<u>56,176</u>
NET POSITION	
Invested in Capital Assets, Net of Related Debt	778,370
Restricted	0
Unrestricted	<u>75,205</u>
Total Net Position	<u>853,575</u>
Total Liabilities and Net Position	<u>\$ 909,751</u>

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, 2017**

	Enterprise Funds
Operating Revenues:	
Charges for services - Water	\$ 155,200
Charges for services - Sewer	37,468
Charges for services - Trash Collections	46,857
Miscellaneous	0
Total Revenues	239,525
Operating Expenses:	
Management Services	157,153
Salaries and Wages	8,151
Trash Service	45,415
Repairs and Maintenance	2,213
Materials and Supplies	1,600
Other Services and Charges	7,772
Depreciation	41,678
Total Expenditures	263,982
Net Operating Income	(24,457)
Non-operating Revenue(Expense)	
Transfers In (Out)	28,707
Investment Income	318
Interest Expense	(470)
Total Non-operating Revenue(Expense)	28,555
Increase (Decrease) in Net Position	4,098
Net Position, Beginning	849,477
Net Position, Ending	\$ 853,575

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, 2017**

	Enterprise Funds
Cash Flows from Operating Activities:	
Receipts from Customers	\$ 239,525
Payments to Employees	(8,151)
Payments to Suppliers and Vendors	(214,153)
Net Cash Provided (Used) by Operating Activities	17,221
Cash Flows from Capital and Related Financing Activities:	
Principal Paid on Long-term Debt	(44,750)
Interest Paid on Long-term Debt	(541)
Net Cash Provided (Used) by Capital and Related Financing Activities	(45,291)
Cash Flows from Investing Activities:	
Receipts of Interest Income	318
Transfer In (Out)	28,707
(Increase) Decrease in Investments	(103)
Net Cash Provided (Used) from Investing Activities	28,922
Net Increase (Decrease) in Cash and Cash Equivalents	852
Cash and Cash Equivalents, Beginning	75,421
Cash and Cash Equivalents, Ending	\$ 76,273
Cash and Cash Equivalents	\$ 53,565
Restricted Cash, Meter Funds	22,708
	\$ 76,273
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:	
Operating Income (Loss)	\$ (24,457)
Adjustments to reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Depreciation	41,678
Net Cash Provided (Used) by Operating Activities	\$ 17,221

See accompanying notes to the basic financial statements.

TOWN OF RED OAK, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

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, 2017

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 modified cash basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as soon as all eligibility requirements imposed by the provider have been met. The Town 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, 2017**

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, 2017**

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, 2017**

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, 2017, and reported at fair value are as follow:

<u>TYPE</u>	<u>Carrying Value</u>
Deposits:	
Demand Deposits	\$ 351,133
Investments:	
Certificates of Deposit	35,917
Total Deposits and Investments	<u>387,050</u>
Reconciliation to Statement of Net Assets:	
Cash and Cash Equivalents	295,263
Investments, Unrestricted	69,079
Restricted Cash and Cash Equivalents, Meter Funds	<u>22,708</u>
	<u>\$ 387,050</u>

**TOWN OF RED OAK, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

**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 \$389,489 at June 30, 2017, 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, 2017, 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, 2017

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 is as follows:

	Balance 6/30/2016	Additions	Deletions	Balance 6/30/2017
<i>Governmental Activities:</i>				
Buildings	\$ 94,380	\$ 0	\$ 0	\$ 94,380
Machinery and Equipment	286,370	0	0	286,370
	<u>380,750</u>	<u>0</u>	<u>0</u>	<u>380,750</u>
Less: Accumulated Depreciation				
Buildings	41,554	4,112	0	45,666
Machinery and Equipment	221,077	22,370	0	243,447
Total Accumulated Depreciation	<u>262,631</u>	<u>26,482</u>	<u>0</u>	<u>289,113</u>
	<u>118,119</u>	<u>(26,482)</u>	<u>0</u>	<u>91,637</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	6,863	528	0	7,391
Water and Sewer System	852,349	41,150	0	893,499
Machinery and Equipment	88,048	0	0	88,048
Total Accumulated Depreciation	<u>947,260</u>	<u>41,678</u>	<u>0</u>	<u>988,938</u>
	<u>854,424</u>	<u>(41,678)</u>	<u>0</u>	<u>812,746</u>
	<u>\$ 972,543</u>	<u>\$ (68,160)</u>	<u>\$ 0</u>	<u>\$ 904,383</u>

Depreciation expense for June 30, 2017 is \$68,160.

TOWN OF RED OAK, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

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. These bonds were paid off during the year ending June 30, 2017.

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>6/30/2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>6/30/2016</u>	<u>One Year</u>	
<i>Business-type Activities:</i>						
ODOC long-term debt	\$ 40,626	\$ 0	\$ 6,250	\$ 34,376	\$	6,250
First Mortgage Revenue Bonds	38,501	0	38,501	_____	_____	0
	<u>\$ 79,127</u>	<u>\$ 0</u>	<u>\$ 44,751</u>	<u>\$ 34,376</u>	<u>\$</u>	<u>6,250</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>	
6/30/2018	\$ 6,250	\$ 0	\$ 6,250
6/30/2019	6,250	0	6,250
6/30/2020	6,250	0	6,250
6/30/2021	6,250	0	6,250
6/30/2022	6,250	0	6,250
6/30/2023	3,126	0	3,126
	<u>\$ 34,376</u>	<u>\$ 0</u>	<u>\$ 34,376</u>

NOTE 5 - LITIGATION

Neither the Town nor the Authority has any known pending claims or lawsuits against them as of June 30, 2017, 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, 2017**

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.

**TOWN OF RED OAK, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2017**

GENERAL:

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:				
Taxes	\$ 190,000	\$ 190,000	\$ 210,124	\$ 20,124
Fines and Forfeitures	10,000	10,000	7,826	(2,174)
Library Revenue	0	0	9,945	9,945
Miscellaneous	5,000	5,000	3,933	(1,067)
Interest	700	700	1,217	517
Total Revenues	<u>205,700</u>	<u>205,700</u>	<u>233,045</u>	<u>27,345</u>
Expenditures:				
General Government				
Personal Services	15,000	15,000	14,333	667
Maintenance and Operations	75,000	75,000	106,760	(31,760)
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	28,707	19,293
Police				
Salaries	27,700	27,700	28,878	(1,178)
Maintenance and Operations	18,000	18,000	10,314	7,686
Capital Outlay	0	0	0	0
Library				
Maintenance and Operations	2,000	2,000	5,176	(3,176)
Total Expenditures	<u>205,700</u>	<u>205,700</u>	<u>194,168</u>	<u>11,532</u>
Net Change in Fund Balance	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 38,877</u>	<u>\$ 38,877</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, 2017**

STREET & ALLEY:

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:				
Taxes	\$ 5,500	\$ 5,500	\$ 4,218	\$ (1,282)
Total Revenues	<u>5,500</u>	<u>5,500</u>	<u>4,218</u>	<u>(1,282)</u>
Expenditures:				
Maintenance and Operations	5,000	5,000	238	4,762
Capital Outlay	<u>500</u>	<u>500</u>	<u>0</u>	<u>500</u>
Total Expenditures	<u>5,500</u>	<u>5,500</u>	<u>238</u>	<u>5,262</u>
Net Change in Fund Balance	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,980</u>	<u>\$ 3,980</u>

FIRE:

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:				
Donations	\$ 1,000	\$ 1,000	\$ 0	\$ (1,000)
Grant Revenues	5,000	5,000	3,817	(1,183)
Miscellaneous	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Revenues	<u>6,000</u>	<u>6,000</u>	<u>3,817</u>	<u>(2,183)</u>
Expenditures:				
Maintenance and Operations	6,000	6,000	2,949	3,051
Capital Outlay	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Expenditures	<u>6,000</u>	<u>6,000</u>	<u>2,949</u>	<u>3,051</u>
Net Change in Fund Balance	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 868</u>	<u>\$ 868</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, 2017, and the related notes to the financial statements, which collectively comprise the basic financial statements and have issued my report thereon dated May 31, 2018.

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 #2017-01 that I consider to be a significant deficiency.

Compliance and Other Matters

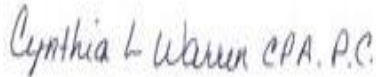
As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, I performed tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination 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
May 31, 2018

**TOWN OF RED OAK, OKLAHOMA
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017**

#2017-01 *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.