

Town of Pink, Oklahoma

**Financial Statements and
Independent Auditor's Report**

June 30, 2012

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Town of Pink, Oklahoma

We have audited the accompanying financial statement of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Pink, Oklahoma (the Town), as of and for the year ending June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Pink, Oklahoma's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our 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 we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note One to the financial statements, management has not recorded general infrastructure or general fixed assets in governmental activities and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those fixed assets be capitalized and depreciated, which would increase the assets, net assets, and expenses of the governmental activities. The amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not reasonably determinable.

As discussed in Note One, Town of Pink, Oklahoma, prepares its financial statements on the cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, because of the effects of the matters discussed in the paragraph third paragraph, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America the financial position of the Town of Pink, Oklahoma as of June 30, 2012, or the changes in financial position thereof for the year then ended.

In addition, in our opinion, with the exception of paragraph three, the financial statements referred to above present fairly, in all material respects, the respective financial position – cash basis of the Town of Pink as of June 30, 2012, and the respective changes in financial position-cash basis, thereof for the year then ended in conformity with the basis of accounting described in Note One.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2012, on our consideration of the Town of Pink's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management has elected to not present a management, discussion and analysis and budget to actual comparisons which are considered required supplementary information as is required by generally accepted accounting principles in the United States of America.


October 1, 2012

Town of Pink, Oklahoma
Statement of Net Assets
Cash Basis
June 30, 2012

	Governmental Activities
ASSETS	
Cash in Bank - Unrestricted	138,360.33
Cash in Bank - Restricted	299,851.94
TOTAL ASSETS	\$ 438,212.27
 NET ASSETS	
Restricted - Net Assets	299,851.94
Unrestricted - Net Assets	138,360.33
TOTAL NET ASSETS	\$ 438,212.27

Town of Pink, Oklahoma
Statement of Activities - Cash Basis
For the Year Ending June 30, 2012

Functions/Programs	Expenses	Program Revenues		Net (expense)
		Charges for Services	Capital Grants	Changes in net Primary Governmental Activities
Primary Government				
Governmental Activities				
Fire Department	60,697.36	0.00	5,412.77	(55,284.59)
Streets and Alleys	1,381.40	0.00	0.00	(1,381.40)
General Government	<u>16,819.73</u>	<u>0.00</u>	<u>0.00</u>	<u>(16,819.73)</u>
Total Governmental Activities	78,898.49	0.00	5,412.77	(73,485.72)

General Revenues	
Sales Taxes - Unrestricted	31,175.41
Sales Taxes - Restricted	40,463.25
Taxes - Other	48,021.67
Interest Income	<u>619.43</u>
Total General Government Revenue	<u>120,279.76</u>
Change in Net Assets	46,794.04
Net Assets Beginning	<u>391,418.23</u>
Net Assets Ending	<u><u>\$ 438,212.27</u></u>

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

Town of Pink, Oklahoma
Balance Sheet - Cash Basis
Governmental Funds
June 30, 2012

	General Fund	Street and Alley Fund	Totals
ASSETS			
Cash - Unrestricted	138,360.33	0.00	138,360.33
Cash - Restricted	160,741.73	139,110.21	299,851.94
Total Assets	\$ 299,102.06	\$ 139,110.21	\$ 438,212.27
FUND BALANCES			
Fund Balance - Unassigned	138,360.33	0.00	138,360.33
Fund Balance - Restricted	160,741.73	139,110.21	299,851.94
Total Fund Balance	\$ 299,102.06	\$ 139,110.21	\$ 438,212.27

Town of Pink, Oklahoma
Statement of Revenues, Expenditures and Changes in Fund Balance - Cash Basis
Governmental Fund
For the Year Ending June 30, 2012

	General Fund	Street and Alley Fund	Totals
REVENUES			
Sales and Use Taxes - Unrestricted	31,175.41	0.00	31,175.41
Sales Taxes - Restricted	40,463.25	0.00	40,463.25
Franchise Taxes	22,879.02	0.00	22,879.02
Other Taxes	9,342.51	15,800.14	25,142.65
Grant Revenues	5,412.77	0.00	5,412.77
Other Revenues	406.92	212.51	619.43
Total Revenues	<u>109,679.88</u>	<u>16,012.65</u>	<u>125,692.53</u>
EXPENDITURES			
Personal Services	1,937.20	0.00	1,937.20
Maintenance and Operations	12,197.40	1,381.40	13,578.80
Other Services and Charges	15,616.68	0.00	15,616.68
Capital Outlay	47,765.81	0.00	47,765.81
Total Expenditures	<u>77,517.09</u>	<u>1,381.40</u>	<u>78,898.49</u>
Excess Revenues Over Expenditures	32,162.79	14,631.25	46,794.04
Fund Balances - Beginning of Period	<u>266,939.27</u>	<u>124,478.96</u>	<u>391,418.23</u>
Fund Balances - End of Period	<u>\$ 299,102.06</u>	<u>\$ 139,110.21</u>	<u>\$ 438,212.27</u>

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

Town of Pink, Oklahoma
Notes to the Basic Financial Statements
For the Year Ended June 30, 2012

Note 1-Summary of Significant Accounting Policies

Financial Reporting Entity

The Town of Pink, Oklahoma is a statutory town Government under Oklahoma Statutes. The Town provides the following services: public safety, streets and alleys, senior nutrition, and general administrative services.

The criteria used to determine which accounting entities, agencies, commissions, boards and authorities are part of the Town's operations include how the budget is adopted, whether debt is secured by general obligation of the Town, the Town's duty to cover any deficits that may occur, and supervision over the accounting functions. Any separate accounting entities would be considered component units. There are no agencies, organizations or activities meeting any of the above criteria that are excluded from the Town's reporting entity. As of June 30, 2012, the Town did not have any component units.

Basis of Presentation-Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The Town's funds are grouped into two governmental fund types, a general fund and a street and alley fund. The general fund is used to account for all of the general revenues of the Town not specifically levied or collected for the street and alley fund and for expenditures primarily related to the rendering of the general services to the Town. The street and alley fund was established to account for revenues derived from specific taxes or other earmarked revenues.

Basis of Accounting

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities display information about the Town as a whole.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect and program revenues for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function.

Indirect expenses for centralized services and administrative overhead are allocated among programs, functions and segments using a full cost allocation approach and are presented separately to enhance comparability of direct expenses between governments that allocate direct expenses and those that do not. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the Town.

Government-wide Net Assets are divided into two components:

- a. Restricted net assets- consist of net assets that are restricted by the state, county or local enabling legislation, by grantors and by other contributors.
- b. Unrestricted net assets are reported in this category.

Restricted assets consist of monies restricted for fire operations and streets and alleys.

FUND FINANCIAL STATEMENTS

Fund financial statements report detailed information about the Town. The focus is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column as of June 30, 2012 the Town had no nonmajor funds.

The governmental fund balances are classified as follows:

- a. Nonspendable-amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.
- b. Restricted-amounts that can be spent only for specific purposes because of the Town ordinances state or federal law, or externally imposed conditions by grantors or creditors.
- c. Committed-amounts that can be used only for specific purposes determined by a formal action by Town Trustee resolution.
- d. Assigned-amounts that are designated by the Town Trustees.
- e. Unassigned-All amounts not included in other spendable classifications.

Restricted assets consist of monies restricted for fire operations and streets and alleys.

GOVERNMENT-WIDE FINANCIAL STATEMENTS and FUND FINANCIAL STATEMENTS

Revenue Recognition

Revenues are recognized when they are collected. This revenue recognition policy is in effect for both the governmental wide financial statements and the fund financial statements. Under the cash basis of accounting any borrowed monies are treated as revenue.

Expenditure Recognition

Expenditures are recognized when they are paid. Under the cash basis of accounting capital assets are expensed and is debt service on any debt obligations.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditures of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental funds. Encumbrances are not recognized as the equivalent of expenditures; therefore, the reserve for encumbrances is reported as part of the fund balance on the balance sheet. However, it should be noted that the Town did not recognize any outstanding reserves as of June 30, 2012.

Budget

In accordance with Oklahoma Statutes, Title 68, Section 3002, the Town Council formally adopts annual budgets which include substantially all funds. These annual budgets are adopted on a basis consistent with the guidelines established by the Oklahoma Municipal Code.

Risk Management

Significant losses are covered by commercial insurance for all Town operations.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2-Deposits with Financial Institutions

The accounts of the Town are required by state law to be secured by collateral pledged by the financial institution and/or FDIC insurance. The Town of Pink is considered a separate entity from the Pink Municipal Authority for FDIC deposit insurance.

In accordance with GASB No. 3, deposits are to be classified into the following three categories:

1. Insured or collateralized with securities held by the entity or by its agent or in the entity's name (Referred to as category 1)
2. Collateralized with securities held by pledging financial institution's trust department or agent in the entity's name. (Referred to as category 2)
3. Uncollateralized, including any bank balance that is collateralized with securities held by the pledging institution, or by its trust department or agent but not in the entity's name. (Referred to as category 3)

All of the Town of Pink's cash accounts would be considered as category 1.

Note 3-Subsequent Events

Subsequent events have been evaluated through October 1, 2012, which is the date the financial statements were issued.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees
Town of Pink, Oklahoma

We have audited the financial statements of the governmental activities and each major fund, and the aggregate remaining fund information of the Town of Pink, Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise the Town of Pink, Oklahoma's basic financial statements and have issued our report thereon dated October 1, 2012. The report on the government wide financial statements was adverse due to the lack of fixed asset accounting and qualified due to the use of cash basis accounting. Our opinion was qualified on the fund financial statements due to the use of the cash basis of accounting. Except as discussed in the preceding sentences, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Town of Pink, Oklahoma, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Town of Pink, Oklahoma's internal control over financial reporting as a basis for designing out auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Pink, Oklahoma's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Pink, Oklahoma's internal control over financial reporting.

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 a 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting, finding 2012-1. 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 charges with governance.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, Board of Trustees and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


October 1, 2012

2012-1 Segregation of Duties – Repeat Finding

Criteria: The segregation of incompatible financial duties is important to adequately protect the Town's assets and ensure accurate financial reporting.

Condition: Presently the same individual receiving cash also posts payments and adjustments to subsidiary accounts receivable and accounts payable ledgers.

Cause: The Town's limited population and resources result in its inability to provide sufficient staffing to fully segregate incompatible duties.

Effect: Without proper segregation of duties, the risk increases that errors and fraud related to the collection and expenditure activities could occur and not be detected within a timely basis.

Recommendation: Efficient segregation of duties in a small town environment is often difficult. However, the governing body and Town management should be aware of this risk associated with the lack of duty segregation and attempt to exercise as much oversight control in these areas as possible and feasible. Such control could consist of independent bank account reconciliation reviews, revenue posting report reviews, payment posting report reviews and adjusting entry reviews.