



TOWN OF
CARLTON LANDING
Oklahoma

Financial Statements and Independent Auditor's Reports

As of and for the Year Ended June 30, 2015

TOWN OF CARLTON LANDING, OKLAHOMA

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Jeffrey Melton	Vice-Mayor
Joann Winner	Treasurer
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Craig McCollum	Trustee
Richard Hardway	Trustee

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Board of Trustees
Town of Carlton Landing, Oklahoma

I have audited the accompanying modified cash basis financial statements of the governmental activities and the general fund for the Town of Carlton Landing, Oklahoma, as of June 30, 2015 and for the year then ended, and the related notes to the financial statements, 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 1B; 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 error or fraud.

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 from 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly I express no 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 opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the Town of Carlton Landing, Oklahoma as

of June 30, 2015, and the respective changes in financial position for the year then ended in accordance with the modified cash basis of accounting as described in Note 1B.

Basis of Accounting

I draw attention to Note 1B of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a special purpose framework other than accounting principles generally accepted in the United States of America. My opinion is not modified with respect to that matter.

Disclaimer of Opinion on Other Information

My audit was conducted for the purpose of forming opinion on the financial statements that collectively comprise the Town of Carlton Landing, Oklahoma's basic financial statements. The budgetary comparison information is 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated March 18, 2016, on my consideration of the Town's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.



Anne Marie Elfrink, MS, CPA

Tulsa, Oklahoma
March 18, 2016

Basic Financial Statements – Statements of Net Position and Activities

Statement of Net Position (Modified Cash Basis) – June 30, 2015

ASSETS

Current Assets:

Cash and cash equivalents	<u>\$ 33,011</u>
Total current assets	<u>33,011</u>

NET POSITION

Unrestricted	<u>33,011</u>
Total net position	<u><u>\$ 33,011</u></u>

See accompanying notes to the basic financial statements

Statement of Activities (Modified Cash Basis) – Year Ended June 30, 2015

<u>Functions/Programs</u>	<u>Net (Expense) Revenue and Change in Net Position</u>	
	<u>Expenses</u>	<u>Governmental Activities</u>
Primary government:		
Governmental activities:		
General government	\$ 42,667	\$ (42,667)
Total primary government	\$ 42,667	(42,667)

General revenues:		
Taxes:		
Sales		72,574
Intergovernmental		789
Total general revenues		73,363
Change in net position		30,696
Net position - beginning (restated)		2,315
Net position - ending	\$	33,011

See accompanying notes to the basic financial statements

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Basic Financial Statements – Governmental Funds

Balance Sheet (Modified Cash Basis) - June 30, 2015

ASSETS

Current Assets:

Cash and cash equivalents	\$	33,011
Total assets	\$	<u>33,011</u>

FUND BALANCE

Unassigned		<u>33,011</u>
Total fund balance	\$	<u>33,011</u>

-

See accompanying notes to the basic financial statements

Statement of Revenues, Expenditures and Changes in Fund Balance (Modified Cash Basis)

Year Ended June 30, 2015

	<u>GENERAL FUND</u>
Revenues:	
Sales tax	\$ 72,574
Intergovernmental	789
	<hr/>
Total revenues	<u>73,363</u>
Expenditures:	
General government:	
Legal fees	29,330
Management fees	11,995
Other	1,342
	<hr/>
Total expenditures	<u>42,667</u>
Excess of revenues over expenditures	30,696
Fund balance beginning of period (restated)	2,315
Fund balance end of period	<hr/> <u>\$ 33,011</u> <hr/>

See accompanying notes to the basic financial statements

Notes to the Basic Financial Statements

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

The Town of Carlton Landing, Oklahoma was established on October 21, 2013 to establish and operate public safety, streets, health and welfare, culture and recreation, and administrative activities for the citizens of the Town. The Town's financial reporting entity is comprised of the following:

Primary Government: Town of Carlton Landing

Component Unit: Carlton Landing Economic Development Trust

In determining the financial reporting entity, the Town complies with the provisions of Governmental Accounting Council Statement No. 14, as amended by Statement No. 61, *The Financial Reporting Entity*, and includes all component units for which the Town is financially accountable.

Blended Component Unit

Carlton Landing Economic Development Trust – ("CLEDT") - currently inactive – Created July 19, 2014 to finance, operate, develop, construct, maintain, manage, market, and administer projects for investment and reinvestment on behalf of the Town. The Town's Board of Trustees also serve as Trustees for the CLEDT.

B. Basis of Presentation and Accounting

Government-Wide Financial Statements:

The statements of net position and activities display information about the Town as a whole and are reported on a modified cash basis of accounting. The modified cash basis of accounting is based on the recording of cash and cash equivalents and changes therein, and only recognizes revenues, expenses, assets and liabilities resulting from cash transactions adjusted only for certain modifications stated below that have substantial support in generally accepted accounting principles (GAAP). These modifications include adjustments for the following balances arising from cash transactions:

- cash-based interfund receivables and payables
- other cash-based receivables/payables

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected, and accrued revenue and receivables) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

In addition, due to the use of this modified cash basis of accounting, capital asset and long-term debt transactions are excluded from reporting within the financial statements. Capital assets are expensed when purchased and long-term debts are reported as cash receipts when issued and received. However, information about long-term debts is disclosed in Note 8 Commitments and Contingencies.

The statement of activities presents a comparison between the expenses and program revenues directly associated with different governmental functions to arrive at the net revenue or expense of the function or activity prior to the use of taxes and other general revenues. Program revenues include (1) fees, fines, and service charges generated by the program or activity, (2) operating grants and contributions that are restricted to meeting the operational requirements of the program or activity, and (3) capital grants and contributions that are restricted to meeting the capital requirements of the program or activity and include assets donated by developers. These revenues are subject to externally imposed restrictions to these program uses. The Town does not currently have any program revenues. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements:

Currently the Town has only one fund – the General Fund – which accounts for all activities. The governmental funds are reported on a modified cash basis of accounting and current financial resources measurement focus. Only current financial assets and liabilities are generally included on the fund balance sheets. The operating statements present sources and uses of available spendable financial resources during a given period. These fund financial statements use fund balance as their measure of available spendable financial resources at the end of the period.

C. Cash, Cash Equivalents, and Investments

Cash and cash equivalents includes all demand and savings accounts, certificates of deposit or short-term investments with an original maturity of three months or less, and money market accounts. Investments consist of long-term certificates of deposit and are reported at cost.

D. Net position or equity

Government-wide Financial Statements:

Equity is classified as net position and displayed in three components:

1. *Net investment in capital assets* – 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 attributed to the acquisition, construction, or improvement of those assets.
2. *Restricted net position* – Consists of net assets with constraints placed on the use by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
3. *Unrestricted net position*- All other net assets that do not meet the definition of “restricted” or “net investment in capital assets”.

It is the Town’s policy to first use restricted net position prior to the use of unrestricted net position when an expense is incurred for purposes for which restricted and unrestricted net position are available.

Fund Financial Statements:

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned, and unassigned. These classifications are defined as:

- Nonspendable – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally required to be maintained intact.
- Restricted - consists of fund balance with constraints placed on the use of resources either by (1) external groups such a creditors, grantors, contributors, or laws or regulations of other governments, or (2) laws through constitutional provisions or enabling legislation

- Committed – includes unrestricted amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town’s highest level of decision-making authority. The Town’s highest level of decision-making authority is made by ordinance.
- Assigned – includes unrestricted amounts that are constrained by the Town’s intent to be used fo specific purposes but are neither restricted nor committed. Assignments of fund balance may be made by Town Board action or management decision when the Town’s Board has delegated that authority. Assignments for transfers and interest income for governmental funds are made through budgetary process.
- Unassigned – all remaining unrestricted fund balances not reported as committed or assigned.

It is the Town’s policy to first use restricted fund balance prior to the use of unassigned fund balance when an expense is incurred for purposes for which both restricted and unrestricted fund balance are available. The Town’s policy for the use of fund balance amounts require that restricted amounts would be reduced first, followed by committed amounts and then assigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

E. Restatement of Prior Period Fund Balance and Net Position

The prior period fund balance and net position have been restated due to the Town’s election to adopt a modified cash basis of accounting for financial reporting as follows:

Net position and fund balance 6/30/2014:	\$ 7,493
Add:	
Eliminate accounts payable accrual	1,085
Subtract:	
Eliminate accounts receivable accrual	<u>(6,263)</u>
Net postion and fund balance 6/30/2014 (restated):	<u>\$ 2,315</u>

F. Revenues and expenses

Sales Tax

The Town levies a three-cent sales tax on taxable sales within the Town. The sales tax is collected by the Oklahoma Tax Commission and remitted to the Town in the month following receipt by the Tax Commission.

Expenses

In the government-wide financial statements, expenses, including depreciation of capital assets, are reported by function or activity. In the governmental fund financial statements, expenditures are reported by class as current (further reported by function), capital outlay and debt service.

2. Detailed Notes on Transaction Classes/Accounts

A. Deposits and Investments

At June 30, 2015, the Town’s cash balance of \$33,011 was held in a bank demand deposit account.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government deposits may not be returned to it. The Town is governed by the State Public Deposit Act which requires the Town obtain and hold collateral whose fair value exceeds the amount of uninsured deposits. Investment securities are

exposed to custody credit risk if the securities are uninsured, are not registered in the name of the government, and if held by either a counterparty or a counterparty's trust, department or agent, but not in the government's name.

As of June 30, 2015, the Town was not exposed to custodial credit risk as defined above.

3. Sales Tax Revenue

Sales tax revenue represents a 3.0 cent local tax on each dollar of taxable sales within the Town and is used for general operations of the Town.

4. Property Tax Levy

The Town presently levies no property tax. In accordance with state law, a municipality may only levy a property tax to retire general obligation debt approved by the voters and to pay judgments rendered against the Town. On February 9, 2016 the Town's electorate approved the levy of additional property tax. The first receipts are expected to occur in the fiscal year ended June 30, 2017.

5. Contract Management Services

The Town has entered into an agreement for administrative services to be provided by Carlton Landing Enterprises, LLC at a cost of \$18,000 per year. The Town does not have employees.

6. Developer Advances

On July 1, 2014 the Town entered into a Project Cost Advancement and Eligibility Agreement whereby Humphreys Partners 2009, the developer of the planned community, may advance up to \$75,000 to be used for the development of a Tax Increment Financing (TIF) project plan. For the year ended June 30, 2015, the Town had incurred \$29,330 in legal fees that qualify for reimbursement; however no amounts had been advanced.

7. Risk Management

The Town is exposed to various risks of loss related to torts, errors, and omissions. At this time, the Town does not carry insurance.

8. Commitments and Contingencies

The Town is not involved in any legal proceedings, which normally occur in the course of operations, at this time. While legal proceedings cannot be foreseen, the Town believes that any settlement or judgment would not have a material effect on the financial condition of the Town.

9. Subsequent Events

On September 5, 2015, the Town approved the creation of Increment District No. 1, Town of Carlton Landing. The increment includes 100% of the new ad valorem revenue attributable to increases in the value of the Increment District. The first incremental ad valorem tax is expected to be collected during the fiscal year ended June 30, 2017 and the District is expected to be administered by the Carlton Landing Economic Development Trust.

On October 15, 2015, the Town received a \$38,975 advance from Humphreys Partners 2009 (the developer) to reimburse it for legal fees related to the development of the project plan, to be repaid by ad valorem tax

revenue received under the Tax Increment Financing initiative. The effect of this transaction would be to increase cash and increase proceeds from debt issuance (under the modified cash basis of accounting).

On February 9, 2016, the qualified voters of the Town of Carlton Landing approved the levy of additional property tax to fund a fire station, parks and recreational facilities, arts and cultural facilities, community buildings, drainage control improvements, and street lighting in the total amount of \$9.5 million.

Management has considered events through the date of this report and determined that no additional disclosures are necessary.

Other Information

Budgetary Comparison Schedule (Modified Cash Basis) – Year Ended June 30, 2015 – UNAUDITED

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning budgetary fund balance	\$ -	\$ -	\$ 2,315	\$ 2,315
Resources (inflows):				
Sales tax	231,768	231,768	72,574	(159,194)
Intergovernmental	-	-	789	789
Advances from related party	75,000	75,000	-	(75,000)
Total resources (inflows)	<u>306,768</u>	<u>306,768</u>	<u>73,363</u>	<u>(233,405)</u>
Amounts available for appropriation	<u>306,768</u>	<u>306,768</u>	<u>75,678</u>	<u>(231,090)</u>
Charges to appropriations (outflows):				
General government:				
Legal fees	141,000	141,000	29,330	111,670
Management fees	18,000	18,000	11,995	6,005
Other operations & maintenance	20,304	20,304	1,342	18,962
Total general government	<u>179,304</u>	<u>179,304</u>	<u>42,667</u>	<u>136,637</u>
Fire	30,000	30,000	-	30,000
Streets and alleys	71,564	71,564	-	71,564
Total charges to appropriations	<u>280,868</u>	<u>280,868</u>	<u>42,667</u>	<u>238,201</u>
Ending budgetary fund balance	<u>25,900</u>	<u>25,900</u>	<u>33,011</u>	<u>7,111</u>

Footnotes to the Budgetary Comparison Schedule:

1. The budgetary comparison schedule is reported on the same modified cash basis as governmental funds within the basic financial statements
2. The legal level of appropriation control is the department level within a fund. Transfers of appropriation within a fund require Mayor's approval, while supplemental appropriations require approval of the Town's Board of Trustees.

Internal Control and Compliance

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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**

To the Honorable Mayor and the Board of Trustees
Town of Carlton Landing, Oklahoma

I have audited the modified cash basis financial statements the Town of Carlton Landing, Oklahoma ("Town"), as of June 30, 2015 and for the year then ended, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued my report thereon dated March 18, 2016. As described in Note 1B, the Town of Carlton Landing, Oklahoma has elected to report on a modified cash basis of accounting, which is a special purpose framework other than accounting principles generally accepted in the United States of America. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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. 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 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. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, I 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

my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards*, described in the accompanying schedule of findings and responses as 2015-01.

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.



Anne Marie Elfrink, MS, CPA

Tulsa, Oklahoma

March 18, 2016

SCHEDULE OF FINDINGS AND MANAGEMENT RESPONSES

This schedule is presented as an addendum to accompany the *“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”*. Consideration of items listed should be made in conjunction with that report.

2015-01 – Purchase Orders, Review of Invoices by the Board

CONDITION: The Town is not issuing purchase orders or otherwise encumbering funds prior to commitment. Detailed invoices, purchase orders, and other supporting data are not always being submitted to the governing board for review prior to payment.

CRITERIA: Title 62 Chapter 2 Section 310.1 of the Oklahoma Statutes requires that the purchasing officer submit purchase orders or contracts prior to the time of the commitment and that the clerk certify that the encumbrance is within the authorized available balance. In addition, the statute requires that all payments be supported by a detailed invoice and that the invoice, purchase order, and other supporting data be submitted to the governing board for consideration of payment.

CAUSE OF CONDITION: The Town is newly formed and formal operating procedures related to encumbrance and payment of invoices had not been established as of June 30, 2015.

POTENTIAL EFFECT OF CONDITION: The Board could authorize payment of funds in excess of appropriations. Unauthorized transactions or fraud could occur and go undetected.

RECOMMENDATION: The Town develop a policy and procedure related to the encumbrance of funds prior to commitment. The policy should include a requirement to submit the purchase order, detailed invoice, and other supporting data to the Board for review prior to payment. Although the policy may permit emergency purchases, it is advisable that, due to the limited segregation of duties, the emergency purchase support also be submitted to the Board at the next meeting following the emergency payment. The purchasing policy should also incorporate a policy related to the bidding requirements for construction contracts.

The Board should be supplied with an updated report that shows an accurate accounting for available funds at each monthly meeting. The available funds would be the appropriated funds less encumbrances and commitments and less actual expenditures to date.

RESPONSE: The Town intends to adopt a formal policy and procedure relating to the encumbrance of funds.