

**Town of Hallett**  
Hallett, Oklahoma

Audit Report  
June 30, 2016

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## Independent Auditor's Report

The Board of Town Commissioners  
Town of Hallett  
P.O. Box 159  
Hallett, Oklahoma 74034

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Hallett, State of Oklahoma, as of and for the year ended June 30, 2016, 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

My responsibility is to express opinions 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 Audit Standards* as 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 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 opinions.

### Basis for Qualified Opinion

As discussed in Note 1 to the financial statements, the Town has not maintained complete capital asset records to support the historical cost of past capital asset purchases. Accounting principles general accepted in the United States of America require that capital assets be recorded at historical cost net of accumulated depreciation. Documentation supporting

historical cost was not readily available for my review. The amount by which this departure would affect the assets, net assets, and expenses of the governmental and business-type Activities is not readily determinable.

### **Qualified Opinion**

In my opinion, except for the effects of the matter described in the “Basis for Qualified Opinion” paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental and business-type activities of the Town of Hallett, State of Oklahoma, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Unmodified Opinions**

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major governmental and the aggregate remaining governmental fund information of the Town of Hallett, State of Oklahoma, as of June 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 28 and the notes on page 29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

The Town has omitted Management’s Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although no a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. My opinion on the basic financial statements is not affected by this missing information.

#### *Other Information*

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Hallett’s basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis and is not a required part of the basic financial statements.

prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

***Other Reporting Required by Governmental Auditing Standards***

In accordance with *Government Auditing Standards*, I have also issued my report dated October 31, 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, 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 results of that testing, and not to provide an opinion on the 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.

*Linda S. Woodruff, CPA, P.C.*

Linda S Woodruff CPA, PC  
Oklahoma City, Oklahoma 73172

October 31, 2016

**Town of Hallett**  
Hallett, Oklahoma

Basic Financial Statement  
June 30, 2016

**Town of Hallett**  
Statement of Net Position  
June 30, 2016

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and Equivalents	\$ 69,957	\$ 39,817	\$ 109,774
Investments	27,339	10,000	37,339
Receivables	6,805	9,987	16,792
Inventories	-	-	-
Other assets	2,275	-	2,275
Capital Assets			
Land, improvements, and construction in progress	600	11,000	11,600
Infrastructure and infrastructure in progress, net of depreciation	-	1,747,282	1,747,282
Buildings, net of depreciation	-	-	-
Equipment and Furniture, net of depreciation	190,911	-	190,911
Less Accumulated Depreciation	(63,369)	(564,039)	(627,408)
Total Capital Assets	<u>128,142</u>	<u>1,194,243</u>	<u>1,322,385</u>
Total Assets	<u><u>234,518</u></u>	<u><u>1,254,047</u></u>	<u><u>1,488,565</u></u>
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	1,920	1,456	3,376
Due to other governmental agencies	-	-	-
Deferred Revenues	-	-	-
Long-term liabilities			
Due within one year			
Bonds, capital leases and contracts	-	10,345	10,345
Accrued interest	-	-	-
Compensated Absences	-	-	-
Meter Deposit Payable	-	12,275	12,275
Due in more than one year			
Bonds, capital leases and contracts	-	208,016	208,016
Accrued interest	-	-	-
Compensated absences	-	-	-
Claims and judgments	-	-	-
Total liabilities	<u>1,920</u>	<u>232,092</u>	<u>234,012</u>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	128,142	975,882	1,104,024
Restricted for			
Capital projects	-	-	-
Debt Service & Meter Payable	-	23,723	23,723
Other projects	-	-	-
Unrestricted	104,456	22,350	126,806
Total net position	<u><u>\$ 232,598</u></u>	<u><u>\$ 1,021,955</u></u>	<u><u>\$ 1,254,553</u></u>

The accompanying Notes to the Basic Financial Statement are an integral part of the Basic Financial Statement

**Town of Hallett**  
Statement of Activities  
for the year ended June 30, 2016

Functions/Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Primary Government Business-type Activities	Total
<b>Primary government</b>						
Governmental Activities						
General Government	\$ 41,184	\$ 360	\$ -	\$ (40,824)	\$ -	\$ (40,824)
Public Safety	-	-	-	-	-	-
Public Works	-	-	-	-	-	-
Health, Welfare and Sanitation	-	-	-	-	-	-
Culture and Recreation	-	-	-	-	-	-
Depreciation	\$ 4,292	-	-	(4,292)	-	(4,292)
Total governmental activities	\$ 45,476	\$ 360	\$ -	\$ (45,116)	\$ -	\$ (45,116)
<b>Business-type activities</b>						
Public Works Authority	112,014	56,195	-	-	(55,819)	(55,819)
Total business-type activities	112,014	56,195	-	-	(55,819)	(55,819)
Total primary government	157,490	56,555	-	(45,116)	(100,935)	(100,935)
<b>General revenues</b>						
Taxes						
Franchise taxes				\$ 3,708	\$ -	\$ 3,708
Public service taxes				54,703	-	54,703
Grants and contributions not restricted to specific programs				-	4,750	4,750
Unrestricted investment earnings				519	171	690
Miscellaneous				7,159	320	7,479
Special item - gain on sale of asset				-	-	-
Transfers				(15,241)	15,241	-
Total general revenues, special items, and transfers				50,848	20,482	71,330
Change in net assets				5,732	(35,337)	(29,605)
Net assets - beginning				226,866	1,057,292	1,284,158
Net assets - ending				\$ 232,598	\$ 1,021,955	\$ 1,254,553

The accompanying Notes to the Basic Financial Statement are an integral part of the Basic Financial Statement

**Town of Hallett**  
Balance Sheet: Governmental Funds  
June 30, 2016

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 69,957	\$ -	\$ 69,957
Investments	27,339	-	27,339
Taxes receivable, net	-	-	-
Due from other funds	-	-	-
Receivable from other governments	-	-	-
Other receivables	6,866	-	6,866
Inventories	-	-	-
Prepaid expenses	2,103	-	2,103
Total assets	<u>106,265</u>	<u>-</u>	<u>106,265</u>
Deferred Outflows of Resources			
Total Deferred Outflows			
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities			
Accounts payable	1,920	-	1,920
Due to other funds	-	-	-
Deferred revenue	-	-	-
Other accrued expenses	-	-	-
Other payables	-	-	-
Total liabilities	<u>1,920</u>	<u>-</u>	<u>1,920</u>
Deferred Inflows of Resources			
Total Deferred Inflows			
Fund balances			
Non-Spendable:			
Inventories	-	-	-
Prepaid expenses	-	-	-
Other purposes	-	-	-
Restricted:			
Committed		-	-
Assigned			
Unrestricted	104,456		104,456
Total fund balances	<u>104,456</u>	<u>-</u>	<u>104,456</u>
Total liabilities and fund balances	<u>\$ 106,376</u>	<u>\$ -</u>	<u>\$ 106,376</u>

The accompanying Notes to the Basic Financial Statement are an integral part of the Basic Financial Statement

**Town of Hallett**  
 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets  
 June 30, 2016

Total fund balance, governmental funds	\$	104,456
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.		128,142
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Certain other long-term assets are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.		-
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The assets and liabilities of certain internal service funds are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets.		-
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Some liabilities, (such as Notes Payable, Capital Lease Contract Payable, Long-term Compensated Absences, and Bonds Payable ), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets.		-
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Net Assets of Governmental Activities in the Statement of Net Assets		232,598
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**Town of Hallett**  
Statement of Revenues, Expenditures, and Changes in Fund Balances: Governmental Funds  
for the year ended June 30, 2016

	General Fund	Total Governmental Funds
<b>REVENUES</b>		
Property Taxes	\$ -	\$ -
Sales and miscellaneous taxes	58,411	58,611
Fees and fines	-	-
Licenses and permits	-	-
Intergovernmental	-	-
Charges for services	360	360
Investment earnings	519	519
Insurance Claim for Damages	7,159	7,159
Total revenues	<u>66,449</u>	<u>66,449</u>
<b>LIABILITIES</b>		
Current		
General government	41,184	41,184
Public Safety	-	-
Public Works	-	-
Health and sanitation	-	-
Culture and recreation	-	-
Education	-	-
Fund balances	-	-
Debt Service	-	-
Principal	-	-
Interest and other charges	-	-
Capital Outlay	-	-
Total Expenditures	<u>41,184</u>	<u>41,184</u>
Excess (deficiency) of revenues over expenditures	<u>25,265</u>	<u>25,265</u>
<b>OTHER FINANCING SOURCES (USES)</b>		
Proceeds from long-term debt, net	-	-
Proceeds from capital leases	-	-
Other source	-	-
Other use	-	-
Transfers in	-	-
Transfers out	(15,241)	(15,241)
Total other financing sources and uses	<u>(15,241)</u>	<u>(15,241)</u>
Net change in fund balances	10,024	10,024
Fund balances - beginning	94,432	94,432
Fund balances - ending	<u>\$ 104,456</u>	<u>\$ 104,456</u>

The accompanying Notes to the Basic Financial Statement are an integral part of the Basic Financial Statement

**Town of Hallett**

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities  
for the year ended June 30, 2016

Net change in fund balances - total governmental funds: \$ 10,024

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.

This is the amount by which capital outlays exceeded depreciation in the current period. (4,292)

Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain on the sale of the assets. Thus, the change in net assets differs from the change in fund balance by the cost of the asset sold. -

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned. -

Governmental funds report bond proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount by which proceeds exceeded repayments. -

Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:

Accrued interest not reflected on Governmental funds -

Change in net assets of governmental activities \$ 5,732

The accompanying Notes to the Basic Financial Statement are an integral part of the Basic Financial Statement

**Town of Hallett**  
Statement of Net Position: Proprietary Funds  
for the year ended June 30, 2016

	<b>Enterprise Funds</b>	
	<b>Public Works Authority</b>	<b>Total</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 39,817	\$ 39,817
Investments	10,000	10,000
Accounts Receivable, net	9,987	9,987
Inventories	-	-
Prepaid Expenses	-	-
Total current assets	59,804	59,804
Non-current assets:		
Capital Assets:		
Land and improvements	11,000	11,000
Infrastructure	1,747,282	1,747,282
Utility System	-	-
Buildings	-	-
Equipment and Furniture	-	-
Less Accumulated depreciation	(564,039)	(564,039)
Total non-current assets	1,194,243	1,194,243
Total assets	1,254,047	1,254,047
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	1,456	1,456
Salaries payable	-	-
Meter deposits payable	12,275	12,275
Deferred revenue	-	-
Bonds, notes and loans payable	10,345	10,345
Total current liabilities	24,076	24,076
Non-current liabilities:		
Compensated absences	-	-
Bonds, notes and loans payable	208,016	208,016
Total non-current liabilities	208,016	208,016
Total liabilities	232,092	232,092
<b>NET POSITION</b>		
Invested in capital assets, net of related debt	975,882	975,882
Restricted for debt service	11,448	11,448
Restricted for capital projects	-	-
Restricted for other purposes	12,275	12,275
Unrestricted	22,350	22,350
Total net position	\$ 1,021,955	\$ 1,021,955

The accompanying Notes to the Basic Financial Statement are an integral part of the Basic Financial Statement

**Town of Hallett**  
Statement of Revenues, Expenditures, and Changes in Fund Net Position: Proprietary Funds  
for the year ended June 30, 2016

	<b>Enterprise Funds</b>	
	<b>Public Works Authority</b>	<b>Total</b>
<b>REVENUES</b>		
Charges for services	\$ 56,195	\$ 56,195
Miscellaneous	320	320
Total operating revenues	56,515	56,515
<b>OPERATING EXPENSES</b>		
Personal services	21,509	21,509
Contractual services	12,999	12,999
Utilities	3,691	3,691
Repairs and maintenance	(28)	(28)
Other supplies and expenses	22,319	22,319
Insurance claims and expenses	-	-
Depreciation	42,024	42,024
Total Operating Expenses	102,514	102,514
Operating income (loss)	(45,999)	(45,999)
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Interest and investment revenue	171	171
Miscellaneous revenue	-	-
Operating grants and contributions	4,750	4,750
Interest expense	(9,502)	(9,502)
Miscellaneous expenses	-	-
Total non-operating revenue (expenses)	(4,581)	(4,581)
Income (loss) before contributions and transfers	(50,580)	(50,580)
Transfers in	15,241	15,241
Transfers out	-	-
Change in net position	(35,339)	(35,339)
Total net position - beginning	1,057,292	1,057,292
Total net position - ending	\$ 1,021,955	\$ 1,021,955

The accompanying Notes to the Basic Financial Statement are an integral part of the Basic Financial Statement

**Town of Hallett**  
Statement of Cash Flows: Proprietary Funds  
for the year ended June 30, 2016

		<u>Public Works Authority</u>
<b>Cash Flows from Operating Activities</b>		
Cash Received from Customers & Service Users	\$	55,658
Cash Payments for Goods & Services & Employees		<u>(64,745)</u>
<b>Net Cash Provided by Operating Activities</b>		(9,087)
 <b>Cash Flows from Noncapital Financing Activities</b>		
Transfers		15,241
Prior Period Adjustment		<u>856</u>
<b>Net Cash Provided (Used) for Noncapital Financing Activities</b>		16,097
 <b>Cash Flows from Capital and Related Financing Activities</b>		
Acquisition & Construction of Capital Assets		(4,900)
Principal Paid on Debt		<u>(9,830)</u>
<b>Net Cash Provided (Used) for Capital and Related Financing Activities</b>		(14,730)
 <b>Cash Flows from Investing Activities</b>		
Interest on Investments		<u>171</u>
<b>Net Cash Provided by investing Activities</b>		171
 <b>Net Increase (Decrease) in Cash &amp; Cash Equivalents</b>		(7,549)
 <b>Cash and Cash Equivalents - Beginning of Year</b>		<u>57,366</u>
 <b>Cash and Cash Equivalents - End of Year</b>	\$	<u><u>49,817</u></u>
 <b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>		
Operating Income	\$	(50,751)
 <b>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities</b>		
Depreciation		42,024
Change in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable		857
Increase (Decrease) in Meter Deposits		650
Increase (Decrease) in Payroll Taxes		<u>(1,867)</u>
<b>Total Adjustments</b>		<u>41,664</u>
 <b>Net Cash Provided by Operating Activities</b>	\$	<u><u>(9,087)</u></u>

The accompanying Notes to the Basic Financial Statement are an integral part of the Basic Financial Statement

**Town of Hallett**  
Notes to Financial Statements  
June 30, 2016

**1. Summary of Significant Account Policies**

The Town of Hallett, Oklahoma (the Town) complies with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the Town are discussed below.

**A. Reporting Entity**

The Town of Hallett, Oklahoma was organized under the statutes of the State of Oklahoma. The Town operates under a council form of government and is governed by a three-member board of commissioners. The commissioners elect the mayor from their own body. As required by generally accepted accounting principles, these financial statements present the activities of the Town and its component units, entities for which the Town is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the Town's operations and so data from these units are combined with the data of the primary government. The Town provides the following services as authorized by its charter: general government, streets, public works (water and refuse), health and social services, culture, parks and recreation, public improvements, and planning and zoning for the geographical area organized as the Town of Hallett, Oklahoma.

Blended Component Units

In evaluating how to define the Town of Hallett, State of Oklahoma, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*. The basic – but not the only – criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service application of this criterion involves considering whether the activity benefits the Town and/or its citizens, or whether the activity is conducted within the geographic boundaries of the Town and is generally available to its patrons. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Town is able to exercise oversight responsibilities.

Component units may be presented as either a blended component unit or a discretely presented component unit. A blended component unit is a separate legal entity that meets the component unit criteria. In addition, the blended component unit's governing body is the same or substantially the same as the Town Council or the component unit provides services entirely to the Town. The component unit's funds are blended into those of the Town by appropriate fund type to constitute the primary government presentation. A discretely presented component in it is a separate legal entity that meets the component unit criteria but does not meet the criteria for blending.

The Town has no blended component units.

**Town of Hallett**  
Notes to Financial Statements  
June 30, 2016

**1. Summary of Significant Account Policies – Continued**

**B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting**

The Town's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information. Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting.

**Government-Wide Financial Statements** – The statement of net position and the statement of activities display information about the Town as a whole. These statements include the financial activities of the primary government. The statements distinguish between those activities of the Town that are governmental and those that are considered business-type activities.

The statement of net position presents the financial condition of the governmental and business-type activities at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Town's governmental activities and for the business-type activities of the Town. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on program revenues are presented as general revenues of the Town, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the Town.

**Fund Financial Statements** – During the year, the Town segregates transactions related to certain Town functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Town at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Major funds represent 10% of assets, liabilities, revenues, or expenditures of the corresponding element for all funds of that category and is at least 5% of the corresponding element total for *all* governmental and enterprise funds combined or is a fund that the government believes is important *enough* for financial statement users to be reported as a major fund. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

**Fund Accounting** – The accounts of the Town are organized and operated on the basis of funds. A fund is an independent fiscal accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. There are three categories of funds: governmental, proprietary and fiduciary.

**Town of Hallett**  
Notes to Financial Statements  
June 30, 2016

**1. Summary of Significant Accounting Policies – Continued**

**B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting – Continued**

**Governmental Funds** – are used to account for the government's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, i.e., when they become measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers all revenues available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for un-matured interest on general long-term debt which is recognized when due, and certain compensated absences, claims, and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Sales taxes collected and held by the state at year-end on behalf of the Town are susceptible to accrual and are recognized as revenue. Other receipts and taxes (franchise taxes, licenses, etc.) become measurable and available when cash is received by the government and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible-to-accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The following is the Town's major governmental fund:

General Fund – is the general operating fund of the Town. It accounts for all financial resources of the general government including the street and alley fund. The Town does not maintain any special revenue funds.

There are no other governmental funds of the Town to be considered non-major funds.

**Proprietary Funds** – are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. In compliance with the Governmental Accounting Standards Board (GASB) Statement No. 20 the Town has elected to only apply Financial Accounting Standards Board (FASB), Accounting Principles Board (APB) and Accounting Research Board (ARB) materials issued on or before November 30, 1989 that do not conflict with GASB. Proprietary funds are classified as enterprise funds.

**Enterprise Funds** – are used to account for those operations that are financed and operated in a manner similar to private business 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 where the governing body has decided that the determination of revenues earned, costs incurred and/or net income is necessary for capital maintenance, public policy or management accountability. The Hallett Public Works Authority is accounted for as an enterprise fund. The following is the Town's major enterprise fund:

Hallett Public Works Authority – accounts for the operations of providing public works (water, sewer and refuse) to the Town.

There are no enterprise funds of the Town that are considered a non-major fund.

**Town of Hallett**  
Notes to Financial Statements  
June 30, 2016

**1. Summary of Significant Accounting Policies – Continued**

**B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting – Continued**

**Fiduciary Funds** – account for assets held by the government in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the government under the terms of a formal trust agreement. Agency Funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the government holds for others in an agency capacity. The Town does not have a fiduciary fund.

**C. Assets, Liabilities and Equity**

**1. Deposits and Investments**

Oklahoma statutes authorize the Town to invest in certificates of deposit, repurchase agreements, passbooks, bankers' acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, the Town can invest in direct debt securities of the United States unless law expressly prohibits such an investment.

For financial statement presentation and for purposes of the statement of cash flows, the Town's cash and cash equivalents are considered to be cash on hand, demand deposits and certificates of deposit with a maturity date of three months or less. Debt instruments with a maturity date of more than three months are considered to be investments. Investments are stated at cost.

**2. Restricted Cash and Investments**

The restricted cash is the result of financial requirements of various note indentures between the Hallett Public Works Authority and Rural Development and consists of funds held in a reserve fund. Beginning in June 2008, monthly contributions of \$95 to the reserve fund are required until a minimum balance of \$11,448 is reached. The minimum has been reached, therefore, no additional contributions are required. The reserve fund is to be maintained so long as the note is outstanding. In addition, certain funds are restricted for customer deposits.

**3. Fair Value of Financial Instruments**

The Town's financial instruments include cash and cash equivalents, investments, accounts receivable and accounts payable. The Town's estimates of the fair value of all financial instruments does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

**4. Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Town of Hallett**  
Notes to Financial Statements  
June 30, 2016

**1. Summary of Significant Accounting Policies – Continued**

**C. Assets, Liabilities and Equity – Continued**

5. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due from other/due to other funds”.

6. Inventories

Inventories in both governmental funds and proprietary funds normally consist of minimal amounts of expendable supplies held for consumption. The costs of such inventories are recorded as expenditures when purchased rather than when consumed.

7. Capital Assets and Infrastructure

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Town maintains a capitalization threshold of \$500. The Town’s infrastructure consists of roads, bridges, curbs and gutter, streets and sidewalks, drainage system, lighting systems and similar assets that are immovable and of value only to the Town. Such infrastructure assets acquired after July 1, 2003, are capitalized in accordance with the requirements of GASB 34. Improvements are capitalized; the costs of normal maintenance and repairs that do not add value of the asset or materially extend an asset’s life are not capitalized. Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase of proprietary fund capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Description	Governmental Activities <u>Estimated Lives</u>	Business-Type Activities <u>Estimated Lives</u>
Buildings	40-100 years	40-100 years
Furniture, Fixtures & Equipment	10-100 years	10-100 years
Land Improvements	10-40 years	10-40 years
Vehicles	5-40 years	5-40 years
Infrastructure	40-100 years	40-100 years

The Town has not maintained complete capital asset records to support the historical cost of past capital asset purchases. Accounting principles generally accepted in the United States of America require that capital assets be recorded at historical cost net of accumulated depreciation. Documentation supporting historical cost was not readily available to determine these amounts. The amount by which this departure would affect the assets, net position, and expenses of the Government and Business-Type Activities is not readily determinable.

**Town of Hallett**  
Notes to Financial Statements  
June 30, 2016

**1. Summary of Significant Accounting Policies – Continued**

**C. Assets, Liabilities and Equity–Continued**

**8. Compensated Absences**

It is the Town's policy to permit full time employees to accumulate earned but unused vacation time. Full-time regular employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with the Town. The Town has not accrued compensated absences because the amount, if any, would not be material to the financial statements.

**9. Long-term Obligations**

The accounting and reporting treatment applied to long-term liabilities associated with a fund are determined by its measurement focus. All governmental fund types are accounted for on a spending "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources". Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Therefore, long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

**10. Net Position/Fund Balance**

In the government-wide financial statement, net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt, consists of capital assets, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws or other governments, or are imposed by law through constitutional provisions or enabling legislation.

In the fund financial statements, governmental funds report the hierarchy of fund balances. The hierarchy is based primarily on the degree of spending constraints placed upon use of resources for specific purposes versus availability of appropriation. An important distinction that is made in reporting fund balance is between amounts that are considered non-spendable (i.e., fund balance associated with assets that are not in spendable form, such as inventories or prepaid items, long-term portions of loans and notes receivable, or items that are legally required to be maintained intact) and those that are spendable (such as fund balance associated with cash, investments or receivables).

Amounts in the spendable fund balance category are further classified as restricted, committed, assigned or unassigned, as appropriate.

**Restricted** fund balance represents amounts that are constrained either externally by creditors (such as debt covenants), grantors, contributors or laws or regulations of other governments; or by law, through constitutional provisions or enabling legislation.

**Town of Hallett**  
Notes to Financial Statements  
June 30, 2016

**1. Summary of Significant Accounting Policies – Continued**

**C. Assets, Liabilities and Equity – Continued**

10. Net Position/Fund Balance—Continued

**Committed** fund balance represents amount that are usable only for specific purposes by formal action of the government's highest level of decision-making authority. Such amounts are not subject to legal enforceability (like restricted amounts), but cannot be used for any other purpose unless the government removes or changes the limitation by taking action similar to that which imposed the commitment. The Town Ordinance is the highest level of decision-making authority of the Town.

**Assigned** fund balance represents amounts that are intended to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by the governing body itself, or a subordinated high-level body or official who the governing body has delegated the authority to assign amounts to be used for specific purposes. Assigned fund balances includes all remaining spendable amounts (except negative balances) that are reported in governmental funds other than the general fund, that are neither restricted nor committed, and amounts in the general fund that are intended to be used for specific purpose in accordance with the provisions of the standard.

**Unassigned** fund balance is the residual classification for the general fund. It represents the amounts that have not been assigned to other funds, and that have not been restricted, committed, or assigned to specific purposes within the general fund.

It is in the Town's policy for all funds that when an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources, including fund balances, are available, the Town considers restricted amounts to be spent first before any unrestricted amounts are used. Furthermore, it is the Town's policy that when an expenditure/expense is incurred for purposes for which committed, assigned, or unassigned resources, including fund balances, are available, the Town considers committed amounts to be spent first, followed by assigned amounts and lastly unassigned amounts.

**2. Detailed Notes Concerning the Funds**

**A. Deposits and Investments**

At June 30, 2016, the Town held deposits of approximately \$147,113 at financial institutions. The Town's cash deposits, including interest-bearing certificates of deposit, are entirely covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the Town or by its agent in the Town's name.

*Investment Interest Rate Risk*

The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Town of Hallett**  
Notes to Financial Statements  
June 30, 2016

**2. Detailed Notes Concerning the Funds—Continued**

**A. Deposits and Investments—Continued**

*Investment Credit Risk*

The Town has no policy that limits its investment choices other than the limitations of state laws as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime banker's acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trust whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

The investments held at June 30, 2016, are as follows:

Investments			
Certificate of Deposit	#40398	1 year	\$ 3,990.00
Certificate of Deposit	#41531	1 year	3,349.00
Certificate of Deposit	#5798	1 year	10,000.00
Certificate of Deposit	#5682	1 year	10,000.00
Certificate of Deposit	#235930 (PWA)	1 year	10,000.00
Total Investments			<u>\$ 37,339.00</u>

*Concentration of Investment Credit Risk*

The Town places no limit on the amount it may invest in any one issuer. The Town has the following credit risk: 100% in certificate of deposit.

**Town of Hallett**  
Notes to Financial Statements  
June 30, 2016

**2. Detailed Notes Concerning the Funds – Continued**

**B. Capital Assets**

The following is a summary of changes in the property, plant and equipment of the General Fund and the Hallett Public Works Authority:

	Balance 6/30/15	Net Changes	Balance 6/30/16
<b>General Fixed Assets</b>			
Land	\$ 600	\$ -	\$ 600
Property, Plant & Equipment	54,337	-	54,337
Streets	136,575	-	136,575
Sub-Total	191,512	-	191,512
Accumulated Depreciation	(63,371)	(4,292)	(67,663)
Total	<u>\$ 128,141</u>	<u>\$ (4,292)</u>	<u>\$ 123,849</u>
<b>Hallett Public Works Authority</b>			
Land	\$ 11,000	\$ -	\$ 11,000
Sewer System	1,354,771	4,900	1,359,671
Water System	387,612	-	387,612
Sub-Total	1,753,383	4,900	1,758,283
Accumulated Depreciation	(522,016)	(42,024)	(564,040)
Total	<u>\$ 1,231,367</u>	<u>\$ (37,124)</u>	<u>\$ 1,194,243</u>

**C. Long-term Debt**

The Town is not obligated in any manner for a debt of its component units. The water system, including all of the proceeds, revenue, water charges, assessments and income of all kinds and nature together with contract rights, accounts receivable and general intangibles have been pledged as collateral to secure these notes. The note agreements call for monthly payments to be made toward debt agreement. The following is a summary of long-term debt transactions of the proprietary fund:

	Balance June 30, 2015	Additions	Reductions	Balance June 30, 2016
Berkadia - Water	\$ 22,364	\$ -	\$ 4,496	\$ 17,868
Berkadia - Water	6,702	-	2,078	4,624
Rural Development - Sewer	44,291	-	851	43,440
Rural Development - Sewer	154,834	-	2,405	152,429
Total	<u>228,191</u>	<u>-</u>	<u>9,830</u>	<u>218,361</u>

The note payable to Berkadia Commercial Mortgage, LLC dated September 30, 1979, matures September 30, 2019, is payable in monthly installments of \$460 including interest at 5%.

The note payable to Berkadia Commercial Mortgage, LLC dated June 30, 1978, matures June 30, 2018, is payable in monthly installments of \$197 including interest at 5%.

**Town of Hallett**  
Notes to Financial Statements  
June 30, 2016

**2. Detailed Notes Concerning the Funds – Continued**

**C. Long-term Debt – Continued**

The note payable to Rural Development dated May 23, 2006, matures May 23, 2046, is payable in monthly installments of \$190 including interest at 3.25%. A one and one-half percent (1.5%) sales tax levied by the Town will be used to help finance the loan payments.

The note payable to Rural Development dated May 23, 2006 matures May 23, 2046, is payable in monthly installments of \$764 including interest at 4.375%. A one and one-half percent (1.5%) sales tax levied by the Town will be used to help finance the loan payments.

The annual debt service requirements to maturity are as follows:

June 30,	Principal	Interest	Totals
2017	10,345	8,987	19,332
2018	10,765	8,567	19,332
2019	9,189	7,976	17,165
2020	6,807	7,410	14,217
2021	4,042	7,406	11,448
2022-2026	22,890	34,350	57,240
2027-2031	28,100	29,140	57,240
2032-2036	34,515	22,725	57,240
2037-2041	42,418	14,822	57,240
2042-2046	49,290	2,225	51,515
Total	\$ 218,361	\$ 143,608	\$ 361,969

**D. Restricted Net Assets**

The Town records reserves to indicate that a portion of the fund equality is legally segregated for a specific future use. The following details the description and amount of all reserves used by the Town.

Enterprise Fund	
Reserved for Deposits	\$ 12275
Reserved for Loan Requirements	<u>11,448</u>
Total Restricted Assets	<u>\$ 23,723</u>

**Town of Hallett**  
Notes to Financial Statements  
June 30, 2016

**3. Other Information**

**A. 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; employee health benefits; unemployment; and natural disasters. The Town purchases commercial insurance for protection against loss other than health, life, and workers compensation. Settled claims have not exceeded the commercial coverage during the past three fiscal years.

**B. Sales Tax**

An ordinance was adopted June 14, 2006, authorizing an additional 1.5-cent sales tax increase within the legal boundaries of the Town of Hallett and will become effective on July 1, 2006. The additional 1.5-cent sales tax will be transferred to the Hallett Public Works Authority for the sewer system project.

**C. Contingent Liabilities**

The Town is not aware of any pending or threatened legal actions against it. However, insurance protection has been obtained to cover probable claims.

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Town expects such amounts, if any, to be immaterial.

**D. Employee Benefit Plans**

The Town and Trust Authority do not provide health insurance, pension benefits or deferred compensation plans for any of its employees.

**4. Subsequent Events**

Management has evaluated subsequent events through, which is the date the financial statements were available to be issued and has determined that no additional information needs to be added to the financial statements.

**Town of Hallett**  
Hallett, Oklahoma

Required Supplemental Information  
June 30, 2016

**Town of Hallett**  
Statement of Revenues, Expenditures and Changes in Fund Balance  
Budget (GAAP Budgetary Basis) and Actual: Government Funds  
for the year ended June 30, 2016  
(Unaudited)

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Property Taxes	\$ -	\$ -	\$ -	\$ -
Sales and miscellaneous taxes	48,665	48,665	58,411	9,746
Fees and fines	-	-	-	-
Licenses and permits	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	95	95	360	265
Investment earnings	265	265	519	254
Miscellaneous	-	-	7,159	7,159
Total revenues	<u>49,025</u>	<u>49,025</u>	<u>66,449</u>	<u>17,424</u>
<b>EXPENDITURES</b>				
Current:				
General government	34,330	41,330	41,184	146
Public Safety	-	-	-	-
Highways and roads	-	-	-	-
Health and sanitation	-	-	-	-
Culture and recreation	-	-	-	-
Education	-	-	-	-
Debt Service:				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Capital Outlay	-	-	-	-
Total Expenditures	<u>34,330</u>	<u>41,330</u>	<u>41,184</u>	<u>146</u>
Excess (deficiency) of revenues over expenditures	<u>14,695</u>	<u>7,695</u>	<u>25,265</u>	<u>17,570</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from capital leases	-	-	-	-
Transfers in	-	-	-	-
Transfers out	(38,075)	(31,075)	(15,241)	(15,834)
Total other financing sources and uses	<u>(38,075)</u>	<u>(31,075)</u>	<u>(15,241)</u>	<u>(15,834)</u>
<b>SPECIAL ITEM</b>				
Proceeds from sale capital assets	-	-	-	-
Net change in fund balances	(23,380)	(23,380)	10,024	(33,404)
Fund balances - beginning	217,133	217,133	217,133	-
Fund balances - ending	<u>\$ 193,753</u>	<u>\$ 193,753</u>	<u>\$ 227,157</u>	<u>\$ -</u>

The accompanying Notes to the Required Supplemental Information is  
an integral part of the Required Supplemental Information

**Town of Hallett**  
Hallett, Oklahoma

Notes to Required Supplemental Information  
for the year ended June 30, 2016  
(Unaudited)

**Budgetary Information**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP) for all governmental funds. The enterprise funds adopt budgets on the non-GAAP basis wherein service fees, bond and note proceeds are recognized as revenue, principal payments on debt and capital expenditures are recognized as expenses, depreciation expense is not budgeted. Annual appropriated budgets are not adopted for the fiduciary funds. Budgetary data for enterprise funds are not presented in these financial statements.

The budget is legally enacted through passage of a budget resolution. The operating budget, for all budgeted funds, includes proposed expenditures and the means of financing. Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by class as follows: personal services, maintenance and operations, capital outlay and transfers. This constitutes the legal level of control. Expenditures may not exceed appropriations at this level. All budget revisions at the legal level are subject to final approval by the Town Council. All annual appropriations lapse at year-end.

The Town does not utilize encumbrance accounting. Encumbrances (accounts payable) are shown as expenditures and liabilities in the current year and are paid in the subsequent year.

**Town of Hallett**  
Hallett, Oklahoma

Other Information  
June 30, 2016

, Oklahoma

Schedule of Expenditures of Federal & State Awards  
for the Year Ended June 30, 2016

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Program or Award Amount</u>	<u>Revenue Collected</u>	<u>Total Expenditures</u>
<b>REAP Grants</b>			
COEDD 2015-16 REAP Fund 19	\$ 4,750	\$ 4,750	\$ 4,750

**Town of Hallett**  
Hallett, Oklahoma

Report Required by *Government Auditing Standards*  
June 30, 2016

**Independent Auditor's 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***

The Board of Town Commissioners  
Town of Hallett  
PO Box 159  
Hallett, Oklahoma 74034

I have audited, in accordance with the 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 governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Hallett, State of Oklahoma, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Town of Hallett, State of Oklahoma's basic financial statements and have issued my report thereon dated October 31, 2016. The report on governmental and business-type activities was qualified because of the lack of fixed asset records and failure to provide depreciation on those fixed assets. Additionally, The Town of Hallett, State of Oklahoma, did not present the Management's Discussion and Analysis required by the Governmental Accounting Standards Board. Town of Hallett, State of Oklahoma

**Internal Control over Financial Reporting**

In planning and performing my audit of the financial statements, I considered Town of Hallett'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of Hallett's internal control. Accordingly, I do not express an opinion on the effectiveness of Town of Hallett, State of Oklahoma Town of Hallett's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, I identified certain deficiencies in internal control that I consider to be a material weakness.

*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. I consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. 2016-1 and 2016-2.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town of Hallett, State of Oklahoma's financial statements are free from 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Town of Hallett, State of Oklahoma's Response to Findings**

Town of Hallett, State of Oklahoma's response to the findings identified in my audit is described in the accompanying schedule of findings and responses. Town of Hallett, State of Oklahoma'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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

  
Linda S Woodruff CPA, PC

Oklahoma City, Oklahoma  
October 31, 2016

**Town of Hallett**  
Hallett, Oklahoma

Schedule of Findings and Responses

While there are no questioned costs for the audit period, the following are the schedule of findings.

2016-01. Internal Control – Segregation of Duties

Criteria: The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets, and reconciliation of those asset accounts is an important control activity needed to adequately protect the town's assets and ensure accurate financial reporting.

Condition: Presently the same individual that receives utility service related cash payments is also responsible for service billing and adjustment, also balances the daily cash drawer, posts payments to subsidiary accounts receivable ledger and reconciles the monthly bank statements. In addition, only limited oversight is provided over this individual in the conduct of their daily functions.

Cause: The town's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

Effect or Potential Effect: Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to utility billing and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis

Recommendation: I recommend that management and the board should consider a formal evaluation of their risks associated with this lack of duties segregation over utility cash and receivables. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with lack of segregation of duties, such as providing increased management oversight and an independent reconciliation of accounts. For example, the entity might consider soliciting the assistance of independent volunteer labor to perform certain functions including performing compensating procedures where applicable.

Response: Management agrees with the recommendation. The economic benefits received from segregation of duties may be less than the cost of the implementation.

2016-02. Compliance – Payroll

Criteria: Payroll reporting requires that federal and state withholding from employees be reported on a quarterly basis to federal and state agencies. Each quarter, the FICA withheld from the employees plus the matching FICA contribution is remitted in addition to the withholding.

Condition: Payroll checks issued did not balance to the totals reported on the quarterly federal and state payroll forms.

Cause: Reports were filed on a timely basis but did not balance to the actual amounts paid to the employees in three quarters during the fiscal year.

Effect or Potential Effect: Employee year end forms (W-2s) are understated as well as the correct amount of the company matching FICA was not being paid since gross wages have been understated on the reports.

**Town of Hallett**  
Hallett, Oklahoma

Schedule of Findings and Responses

Recommendation: Each quarterly report should be reviewed for accuracy as soon as the forms are received from the payroll service. This can be done by reconciling the check register provided by the payroll service to the Quick Books account detail transaction report for payroll expense. Amended 941 and W-2 reports for this fiscal year should be prepared and submitted.

Response: Management concurs with the recommendation and will work with the payroll service provider to correct any filed reports that have errors. All future quarterly reports will be reconciled when received from the payroll service.