

TOWN OF HALLETT, OKLAHOMA

ANNUAL FINANCIAL REPORT

JUNE 30, 2019

Ralph Osborn
Certified Public Accountant
500 South Chestnut
P.O. Box 1015
Bristow, Oklahoma 74010-1015

INDEPENDENT AUDITOR'S REPORT

The Honorable Members of the Board of Trustees
Town of Hallett, Oklahoma

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Hallett, Oklahoma as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town of Hallett, Oklahoma's basic financial statements.

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; 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 Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 and 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 estimates made by management, as well as evaluating the overall presentation of the financial statement.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities of Town of Hallett as of June 30, 2019, and the respective changes in modified cash basis financial position, thereof for the year then ended in accordance with the basis of accounting as described in Note A.

Basis of Accounting

I draw attention to Note A 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 basis of accounting other than accounting principles generally accepted in the United States of America. This is a change from the prior year. My opinion is not modified with respect to that matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated December 9, 2019, on my consideration of Town of Hallett, Oklahoma'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 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 Town of Hallett, Oklahoma's internal control over financial reporting and compliance.



Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
December 9, 2019

TOWN OF HALLETT, OKLAHOMA
STATEMENT OF NET POSITION
MODIFIED CASH BASIS
JUNE 30, 2019

| | Primary Government | | |
|--|--------------------|------------|--------------|
| | Business | | |
| | Governmental | Type | |
| | Activities | Activities | Total |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 85,823 | \$ 69,026 | \$ 154,849 |
| Reserved for debt service | - | 11,415 | 11,415 |
| Total current assets | 85,823 | 80,441 | 166,264 |
| Non-current assets: | | | |
| Capital assets | | | |
| Land | 600 | 11,000 | 11,600 |
| Other capital assets net of accumulated depreciation | 120,835 | 1,060,961 | 1,181,796 |
| Total non-current assets | 121,435 | 1,071,961 | 1,193,396 |
| Total assets | 207,258 | 1,152,402 | 1,359,660 |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Utility deposits | - | 14,145 | 14,145 |
| Note payable, current | - | 6,810 | 6,810 |
| Total current liabilities | - | 20,955 | 20,955 |
| Non-current liabilities: | | | |
| Note payable, non-current | - | 181,250 | 181,250 |
| Total non-current liabilities | - | 181,250 | 181,250 |
| Total liabilities | - | 202,205 | 202,205 |
| NET POSITION | | | |
| Invested in capital assets, | | | |
| Net related debt | 121,435 | 883,901 | 1,005,336 |
| Reserved for debt service | - | 11,415 | 11,415 |
| Unrestricted | 85,823 | 54,881 | 140,704 |
| Total net position | \$ 207,258 | \$ 950,197 | \$ 1,157,455 |

The accompanying notes are an integral part of this financial statement.

TOWN OF HALLETT, OKLAHOMA
STATEMENT OF ACTIVITIES
MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2019

| FUNCTION/PROGRAMS | <u>Expenses</u> | <u>Program Revenue</u> | | | <u>Net (Expenses) Revenue</u> |
|--------------------------------|------------------|-------------------------------------|---|---|---------------------------------------|
| | | <u>Charges For Services</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> | |
| Governmental activities | | | | | |
| General government | \$ 42,033 | \$ - | \$ 2,010 | \$ - | \$ (40,023) |
| Public safety | 1,500 | - | - | - | (1,500) |
| Street and alley | - | - | 890 | - | 890 |
| Total governmental activities | <u>43,533</u> | <u>-</u> | <u>2,900</u> | <u>-</u> | <u>(40,633)</u> |
| Business-type activities | | | | | |
| Public Works | <u>91,572</u> | <u>59,462</u> | <u>-</u> | <u>-</u> | <u>(32,110)</u> |
| Total business-type activities | <u>91,572</u> | <u>59,462</u> | <u>-</u> | <u>-</u> | <u>(32,110)</u> |
| Total primary government | <u>\$135,105</u> | <u>\$ 59,462</u> | <u>\$ 2,900</u> | <u>\$ -</u> | <u>\$ (72,743)</u> |

| | <u>Primary Government</u> | | |
|-------------------------------------|------------------------------------|-------------------------------------|--------------------|
| | <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Total</u> |
| Changes in net Position: | | | |
| Net (expense) revenue | <u>\$ (40,633)</u> | <u>\$ (32,110)</u> | <u>\$ (72,743)</u> |
| General revenues and transfer | | | |
| Taxes | | | |
| Sales | 49,018 | - | 49,018 |
| Franchise | 3,525 | - | 3,525 |
| Cigarette | 429 | - | 429 |
| Gas | 230 | - | 230 |
| Rent | 470 | - | 470 |
| Interest | 702 | 391 | 1,093 |
| Other revenue | 1,195 | - | 1,195 |
| Transfers | <u>(15,424)</u> | <u>15,424</u> | <u>-</u> |
| Total general revenue and transfers | <u>40,145</u> | <u>15,815</u> | <u>55,960</u> |
| Change in net Position | (488) | (16,295) | (16,783) |
| Net Position - beginning | <u>207,746</u> | <u>966,492</u> | <u>1,174,238</u> |
| Net Position - ending | <u>\$ 207,258</u> | <u>\$ 950,197</u> | <u>\$1,157,455</u> |

The accompanying notes are an integral part of this financial statement.

TOWN OF HALLETT, OKLAHOMA
BALANCE SHEET - GOVERNMENTAL FUNDS
MODIFIED CASH BASIS
JUNE 30, 2019

| | General Fund | Total Governmental Funds |
|-------------------------------------|------------------|--------------------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 85,823 | \$ 85,823 |
| TOTAL ASSETS | <u>\$ 85,823</u> | <u>\$ 85,823</u> |
| LIABILITIES AND FUND BALANCES | | |
| LIABILITIES | | |
| Due to other funds | \$ - | \$ - |
| TOTAL LIABILITIES | <u>-</u> | <u>-</u> |
| FUND BALANCES | | |
| Unrestricted | <u>85,823</u> | <u>85,823</u> |
| TOTAL FUND BALANCES | <u>85,823</u> | <u>85,823</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 85,823</u> | <u>\$ 85,823</u> |

The accompanying notes are an integral part of this financial statement.

TOWN OF HALLETT, OKLAHOMA
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS
WITH THE STATEMENT OF NET POSITION
MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2019

Total fund balance \$ 85,823

Amounts reported in the statement of net
Position are different because:

Capital assets used in governmental activities
are not financial resources and therefore are
not reported as assets in governmental funds.

Capital assets

198,368

Accumulated depreciation

(76,933) 121,435

Total net Position

\$ 207,258

The accompanying notes are an integral part of this financial statement.

TOWN OF HALLETT, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2019

| | General Fund | Total Governmental Funds |
|---|------------------|--------------------------------|
| Revenue | | |
| Sales tax | \$ 49,018 | \$ 49,018 |
| Franchise tax | 3,525 | 3,525 |
| Auto taxes | 890 | 890 |
| Gasoline tax | 230 | 230 |
| Cigarette tax | 429 | 429 |
| Alcoholic beverage tax | 2,010 | 2,010 |
| Rentals | 470 | 470 |
| Interest | 702 | 702 |
| Other revenue | <u>1,195</u> | <u>1,195</u> |
| Total revenue | <u>58,469</u> | <u>58,469</u> |
| Expenditures | | |
| Current | | |
| General government | 37,512 | 37,512 |
| Public Safety | 1,500 | 1,500 |
| Street and alley | <u>-</u> | <u>-</u> |
| Total expenditures | <u>39,012</u> | <u>39,012</u> |
| Excess (deficiency) of revenue over expenditures | 19,457 | 19,457 |
| Transfer in | - | - |
| Transfer out | <u>(15,424)</u> | <u>(15,424)</u> |
| Total transfers | <u>(15,424)</u> | <u>(15,424)</u> |
| Net change in fund balance | 4,033 | 4,033 |
| Fund balances, beginning | <u>81,790</u> | <u>81,790</u> |
| Fund balances, ending | <u>\$ 85,823</u> | <u>\$ 85,823</u> |

The accompanying notes are an integral part of this financial statement.

FOR THE YEAR ENDED JUNE 30, 2019

\$ 4,033

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the combined statement of net Position and allocated over their estimated useful lives as annual depreciation in the statement of activities. This is the amount by which capital outlay exceeds depreciation outlay in the period.

| | | |
|------------------------|----------|-----------------|
| Depreciation expense | (4,521) | |
| Capital outlay | <u>-</u> | <u>(4,521)</u> |
| Change in net Position | | <u>\$ (488)</u> |

The accompanying notes are an integral part of this financial statement.

TOWN OF HALLETT, OKLAHOMA
STATEMENT OF FUND NET POSITION - PROPRIETARY FUND
MODIFIED CASH BASIS
JUNE 30, 2019

| | <u>Public Works</u> |
|---|---------------------|
| ASSETS | |
| Current assets: | |
| Cash and cash equivalents | \$ 69,026 |
| Reserved for debt service | 11,415 |
| Total current assets | <u>80,441</u> |
| Non-current assets | |
| Capital assets: | |
| Land | 11,000 |
| Capital assets, net of accumulated depreciation | <u>1,060,961</u> |
| Total non-current assets | <u>1,071,665</u> |
| Total assets | <u>1,152,402</u> |
| LIABILITIES | |
| Current liabilities: | |
| Utility deposits | 14,145 |
| Note payable, current | <u>6,810</u> |
| Total current liabilities | <u>20,955</u> |
| Non-current liabilities: | |
| Note payable, non-current | <u>181,250</u> |
| Total non-current liabilities | <u>181,250</u> |
| Total liabilities | <u>202,205</u> |
| NET POSITION | |
| Invested in capital assets | |
| Net of related debt | 883,901 |
| Reserved for debt service | 11,415 |
| Unrestricted | <u>54,881</u> |
| Net Position of business-type activities | <u>\$ 950,197</u> |

The accompanying notes are an integral part of this financial statement.

TOWN OF HALLETT, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2019

| | <u>Public Works</u> |
|--|--------------------------|
| <u>OPERATING REVENUES</u> | |
| Charges for services: | |
| Water charges | \$ 27,366 |
| Wastewater charges | 13,673 |
| Sanitation charges | 15,123 |
| Other | <u>3,300</u> |
| Total operating revenues | <u>59,462</u> |
| <u>OPERATING EXPENSES</u> | |
| Personal services | 18,498 |
| Telephone and utility | 447 |
| Sanitation contractor | 14,258 |
| Chemicals | 2,283 |
| Repair and maintenance | 1,939 |
| Supplies | 182 |
| Office supplies | 548 |
| Lab and testing | 1,260 |
| Travel and mileage | 2,202 |
| Dues and training | 362 |
| Miscellaneous | 420 |
| Depreciation | <u>41,150</u> |
| Total operating expenses | <u>83,549</u> |
| Operating income (loss) | <u>(24,087)</u> |
| <u>NON-OPERATING REVENUE (EXPENSES)</u> | |
| Investment income | 391 |
| Interest on notes payable | <u>(8,023)</u> |
| Total non-operating revenue (expenses) | <u>(7,632)</u> |
| Income before transfers | <u>(31,719)</u> |
| Transfer in (out) | <u>15,424</u> |
| Change in net Position of business type activities | (16,295) |
| Total net Position, beginning | <u>966,492</u> |
| Total net Position, ending | <u><u>\$ 950,197</u></u> |

The accompanying notes are an integral part of this financial statement.

TOWN OF HALLETT, OKLAHOMA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED JUNE 30, 2019

| | <u>Public Works</u> |
|--|-------------------------|
| Cash flows from operating activities | |
| Cash received from customers | \$ 59,462 |
| Cash payments to employees | (18,498) |
| Cash payments to suppliers for goods and services | <u>(23,391)</u> |
| Net cash provided (used) by operating activities | <u>17,573</u> |
| Cash flows from capital and related financing activities | |
| Acquisition of fixed assets | (1,446) |
| Interest paid on notes payable and fiscal fees | (8,023) |
| Principal paid on notes payable | <u>(9,092)</u> |
| Net cash used for capital and related financing activities | <u>(18,561)</u> |
| Cash flows from non-capital and related financing activities | |
| Transfers in/(out) | <u>15,424</u> |
| Net cash used for non-capital and related financing activities | <u>15,424</u> |
| Cash flows from investing activities | |
| Interest revenue | 391 |
| Interest to reserve | <u>(34)</u> |
| Net cash provided by investing activities | <u>357</u> |
| Net increase in cash and cash equivalents | 14,793 |
| Cash and cash equivalents, beginning | <u>54,233</u> |
| Cash and cash equivalents, ending | <u><u>\$ 69,026</u></u> |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities | |
| Operating income (loss) | \$ (24,087) |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | |
| Depreciation | 41,150 |
| Changes in assets and liabilities: | |
| Increase/(decrease) in utility deposits | <u>510</u> |
| Net cash provided by operating activities | <u><u>\$ 17,573</u></u> |

The accompanying notes are an integral part of this financial statement.

TOWN OF HALLETT, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Hallett, Oklahoma, was incorporated under the provisions of the laws of the State of Oklahoma. The Town operates under a Board of Trustees form of government and is governed by a three-member Board. The Trustees elect the mayor from their own body. The Town provides the following services as authorized by its charter: general government, public safety, streets, public works, judicial, health and social services, culture, parks and recreation, public improvements, and planning and zoning for the geographic area organized as the Town of Hallett, Oklahoma.

The financial statements of the Town have been prepared in conformity with the modified cash basis, which is a change from the prior year. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies of the government are described below.

Component Units

Component units are legally separate organizations for which the Town is financially accountable as described above. A blended component unit is a separate legal entity that meets the component unit criteria above. In addition, the blended component units provide services that almost exclusively benefit the Town even though they do not provide services directly to the Town. These component units are blended into those of the Town by appropriate fund type to constitute the primary government presentation. A discretely presented component unit is reported separate from Town fund types in the financial statements. The decision to include a component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 14 and No. 39. Based on the criteria Hallett Public Works Authority is the only component unit.

Blended Component Units

The Hallett Public Works Authority (HPWA) - was created pursuant to a Trust Indenture dated August 11, 1980 to acquire, construct, lease and operate the water and sewer facilities for the benefit of the Town of Hallett, Oklahoma. The PWA is empowered to incur debt for the purposes stated above. The water and sewer systems owned by the Town have been leased to PWA. The PWA is a public trust and an agency of the State of Oklahoma under Title 60, Oklahoma Statutes and is governed by the board consisting of three trustees identical with the Town Council. The PWA is exempt from State and Federal Income Taxes and is reported as an enterprise fund.

TOWN OF HALLETT, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

Government-Wide and Fund Financial Statements

The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the Town as a whole excluding fiduciary activities such as employee pension plans. The primary government and component units are presented separately within the financial statements with the focus on the primary government. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and Town general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A functional program is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include (1) charges for services with report fees, fines and forfeitures, and other charges to users of the Town's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions on these programs uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

Fund financial statements of the Town are provided for governmental and proprietary funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns for nonmajor funds.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

In the government-wide Statement of Net Position and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, as defined in item B below.

TOWN OF HALLETT, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus, as applied to the modified cash basis of accounting, is used as appropriate:

- A. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- B. The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or non-current, financial, or non-financial) associated with their activities are reported. Proprietary fund equity is classified as net position.

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental and business-like activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net position/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation in the government-wide statements and proprietary fund statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

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 billed or provided services not yet collected) 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.

If the Town utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements of proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

Fund Types and Major Funds

The Town reports the following major governmental funds:

General Fund - The general fund reports as the primary fund of the Town. This fund is used to account for all financial resources not reported in other funds.

Proprietary Funds - The Town reports the following major enterprise funds:

Hallett Public Works Authority - The Authority provides certain utility services for the Town.

TOWN OF HALLETT, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

Budgetary Accounting and Control

The Mayor submits an annual budget to the Town Council in accordance with the Oklahoma Municipal Budget Act. The budget is presented to the Town Council for review. Public hearings are held to address priorities and allocation of resources. In June, the Town Council adopts the subsequent fiscal year budgets for the Town operating funds. Once approved, the Town Council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations. Public trusts submit budget and other planning documents to their respective governing bodies.

Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by sources. Expenditures are budgeted by department and class as follows: personal services, other services and charges, supplies, capital outlay, transfers, and debt service. Budget revisions at this level are subject to final review by the Town Council. The legal level of control is by department within a fund. Expenditures may not exceed appropriations at this level. Within these control levels, management may transfer appropriations without Council approval.

The budgets for the governmental funds and proprietary fund operations are prepared on the cash basis. Revenues are budgeted in the year receipt is expected; and expenditures, which include encumbrances, are budgeted in the year that the applicable purchase orders are expected to be paid. Budgetary comparison financial statements are reported on this basis. Unencumbered appropriations for annually budgeted funds lapse at fiscal year-end.

Investments

The Town follows Governmental Accounting Standards Board (GASB) Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which requires marketable securities to be carried at fair value. The Town considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The investments reported in the financial statements consist of Certificates of Deposits, government bonds, U.S. government notes and securities. Money held by trustee banks for use in retiring bonds is usually held in United States government securities.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriations, is employed in the governmental funds. Encumbrances outstanding at year end are cancelled under the modified cash basis. The encumbrance is added to the subsequent year expenses when paid.

TOWN OF HALLETT, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

Inventories and Prepaids

Inventories in governmental funds consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost which is recorded as an expenditure at the time individual inventory items are used. Proprietary funds and similar component unit inventories are recorded at the lower of cost or market on a first-in, first-out basis. The Town has not maintained inventory records, however, the value of inventory on hand at June 30, 2019 is not believed to be material.

Prepaids recording payments to vendors that benefit future reporting periods are also reported on the consumption basis. Both inventories and prepaids are similarly reported in government-wide and fund financial statements. Under the modified cash basis, prepaids are not reported. The expense is included in the period the liability is paid.

Capital Assets, Depreciation, and Amortization

The Town's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. The Town maintains infrastructure assets records consistent with all other capital assets. Proprietary and component unit capital assets are also reported in their respective fund and combining component units financial statements. Donated assets are stated at fair value on the date donated. The Town generally capitalizes assets with cost of \$500 or more as purchase and construction outlay occur. The cost of normal maintenance and repairs that do not add to the assets value or materially extend useful lives are not capitalized. Capital assets, including those of component units, are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are moved from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follow:

| | |
|-------------------------------------|--------|
| Buildings | 40-100 |
| Improvements, other than buildings | 10-40 |
| Vehicles | 5-40 |
| Furniture, machinery, and equipment | 10-100 |
| Infrastructure | 40-100 |

Compensated Absences

Full-time, permanent employees are granted personal leave in varying amounts to specified maximums depending on tenure with the Town. The Town does not record a liability for accrued compensated absences. The amount paid for compensated absences is expensed as paid.

Reserves and Designations

Reserves represent those portions of fund balance not available for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

TOWN OF HALLETT, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B - CASH AND INVESTMENTS

Custodial Credit Risk

Custodial credit risk is the risk that in the event of failure of counterparty, the Town will not be able to recover the value of its deposits or investments. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Investment securities are exposed to custodial credit risk if they are uninsured, are not registered in the name of the Town, and are held by counterparty or the counterparty's trust department but not in the name of the Town. The Town's policy requires that all deposits and investments in excess of amounts covered by federal deposit insurance be fully collateralized by the entity holding the deposits or investments. As of June 30, 2019, all of the Towns deposits and investments were either covered by federal deposit insurance or were fully collateralized.

Deposits

The Town had deposits at financial institutions with a carrying amount of approximately \$166,264 at June 30, 2019. The bank balance of the deposits at June 30, 2019 was approximately \$166,564.

Credit Risk

Fixed-income securities are subject to credit risk. However, the Town did not have fixed income securities at June 30, 2019.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Board of Directors monitor's the investment performance on an ongoing basis to limit the Town's interest rate risk. As of June 30, 2019, the Town's deposits consisted of demand deposits and certificates of deposit with a maturity of 12 months or less.

TOWN OF HALLETT, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE C - CAPITAL ASSETS

Changes in capital assets.

The following table provides a summary of changes in capital assets:

| Governmental activities | June 30, 2018 | Changes | June 30, 2019 |
|--------------------------------|---------------------|--------------------|---------------------|
| Land | \$ 600 | \$ - | \$ 600 |
| Property, Plant, and Equipment | 61,193 | - | 61,193 |
| Streets | 136,575 | - | 136,575 |
| Sub-totals | 198,368 | - | 198,368 |
| Accumulated depreciation | (72,412) | (4,521) | (76,933) |
| Total governmental activities | <u>\$ 125,956</u> | <u>\$ (4,521)</u> | <u>\$ 121,435</u> |
| Business-type activities | | | |
| Land | \$ 11,000 | \$ - | \$ 11,000 |
| Sewer System | 1,359,671 | 1,446 | 1,361,117 |
| Water System | 387,612 | - | 387,612 |
| Sub-totals | 1,758,283 | 1,446 | 1,759,729 |
| Accumulated depreciation | (646,618) | (41,150) | (687,768) |
| Total business-type activities | <u>\$ 1,111,665</u> | <u>\$ (39,704)</u> | <u>\$ 1,071,961</u> |

DEPRECIATION EXPENSE

Depreciation expense was charged to functions of the primary government as follows:

GOVERNMENT ACTIVITIES

BUSINESS-TYPE ACTIVITIES

| | | | |
|--------------------|----------|--------------|-----------|
| General government | \$ 4,521 | Public works | \$ 41,150 |
|--------------------|----------|--------------|-----------|

NOTE D - NOTES PAYABLE PROPRIETARY FUND

The following is a summary of changes in long-term debt of the proprietary fund for the year ended June 30, 2019.

| | Payable at July 1, 2018 | Retired/ Added | Balance at June 30, 2019 |
|-------------------|----------------------------|-------------------|-----------------------------|
| Berkadia | \$ 8,154 | \$ (5,223) | \$ 2,931 |
| Berkadia | 146 | (146) | - |
| Rural Development | 41,646 | (940) | 40,706 |
| Rural Development | 147,206 | (2,783) | 144,423 |
| | <u>\$ 197,152</u> | <u>\$ (9,092)</u> | <u>\$ 188,060</u> |

TOWN OF HALLETT, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

As of June 30, 2019, the long-term debt payable from business-type activities resources consisted of the following:

| | |
|---|-------------------|
| Note payable with Berkadia Commercial Mortgage dated September 30, 1979, with an annual interest rate of 5%, due in monthly payments of \$460 for 40 years. | \$ 2,931 |
| Note payable with Rural Development dated May 23, 2006, with an annual interest rate of 3.25%, due in monthly payments of \$190 for 40 years. | 40,706 |
| Note payable with Rural Development dated May 23, 2006, with an annual interest rate of 4.375%, due in monthly payments of \$764. | <u>144,423</u> |
| Total Notes Payable | <u>\$ 188,060</u> |

Debt Service Requirements to Maturity:

| <u>Year Ended June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------------|-------------------|-------------------|-------------------|
| 2020 | \$ 6,810 | \$ 7,610 | \$ 14,420 |
| 2021 | 4,041 | 7,407 | 11,448 |
| 2022 | 4,210 | 7,238 | 11,448 |
| 2023 | 4,386 | 7,062 | 11,448 |
| 2024 | 4,569 | 6,879 | 11,448 |
| 2025-2029 | 25,879 | 31,361 | 57,240 |
| 2030-2034 | 31,783 | 25,457 | 57,240 |
| 2035-2039 | 39,048 | 18,192 | 57,240 |
| 2040-2044 | 48,006 | 9,234 | 57,240 |
| 2045-2046 | 19,328 | 716 | 20,044 |
| Total | <u>\$ 188,060</u> | <u>\$ 121,156</u> | <u>\$ 309,216</u> |

NOTE E - RESERVED FOR DEBT SERVICE - USDA RURAL DEVELOPMENT

The Loan Resolution Security Agreements with the USDA Rural Development requires a reserve fund to be funded at 10% of the monthly installment until the balance is equal to the annual installment amount (\$954 X 12 = \$11,448). At June 30, 2019, the total balance in the debt service reserve account at American Heritage Bank was \$11,415.

NOTE F - COMPENSATED ABSENCES

The amount that should be reported for accrued compensated absences is not known but is not believed to be material.

NOTE G - PENSION OBLIGATIONS

Town of Hallett does not participate in a pension program. The Town contracts with the Town of Jennings for fire services.

TOWN OF HALLETT, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE H - RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town carries commercial insurance for risk of loss, including workers' compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The Town retained legal counsel to defend it in any legal action.

NOTE I - FEDERAL STATE GRANTS

In the normal course of operations, the Town receives grant funds from various federal and state agencies. The grant programs are subject to audit by agents of the granting authorities the purpose of which is to ensure compliance with conditions precedent to the granting of the funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

NOTE J - SUBSEQUENT EVENTS

The Town evaluated subsequent events through December 9, 2019, the date which financial statements were available, to determine if any items need to be disclosed. The Town is not aware of any items which need disclosure.

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

To the Board of Trustees
Town of Hallett
Hallett, Oklahoma

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 *Governmental Auditing Standards* issued by the Comptroller General of the United States, the modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Hallett, Oklahoma, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town of Hallett, Oklahoma's basic financial statements, and have issued my report thereon dated December 9, 2019.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Town of Hallett, Oklahoma'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, Oklahoma's internal control. Accordingly, I do not express an opinion of the effectiveness of Town of Hallett, Oklahoma's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we 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 Town of Hallett, Oklahoma'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 of 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.

Sincerely,

A handwritten signature in cursive script that reads "Ralph Osborn".

Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
December 9, 2019