

**TOWN OF VALLIANT, OKLAHOMA
FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2012
WITH INDEPENDENT AUDITOR'S REPORT**

TABLE OF CONTENTS

Independent Auditor's Report	1
Statement of Net Assets	2
Statement of Activities	3
Balance Sheet - Governmental Funds	4
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	5
Statement of Net Assets - Proprietary Funds	6
Statement of Revenues Over Expenditures and Changes in Retained Earnings - Proprietary Fund Type	7
Statement of Cash Flows – Proprietary Fund type	8
Notes to Financial Statements	9-13
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	14-15
Schedule of Findings and Responses	16

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Report of Independent Accountants

To the Board of Trustees
Town of Valliant, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities and the aggregate remaining fund information of the Town of Valliant, Oklahoma as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the Town of Valliant, Oklahoma prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position-modified cash basis of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Valliant, Oklahoma, as of June 30, 2012, and the respective changes in financial position-modified cash basis, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report September 6, 2012 on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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* and should be considered in assessing the results of our audit.

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

Casey J. Russell CPA, Inc.

September 6, 2012

Town of Valliant
Statement of Net Assets - Modified Cash Basis
June 30, 2012

	Governmental Activities	Business-Type Activities	Totals
CURRENT ASSETS			
Cash - Unrestricted	594,689.04	148,191.23	742,880.27
Cash - Restricted	-	42,358.48	42,358.48
Due from Other Funds	5,984.00	-	5,984.00
Total Current Assets	<u>600,673.04</u>	<u>190,549.71</u>	<u>791,222.75</u>
NONCURRENT ASSETS			
Net Capital Assets	662,033.83	671,836.40	1,333,870.23
Total Noncurrent Assets	<u>662,033.83</u>	<u>671,836.40</u>	<u>1,333,870.23</u>
TOTAL ASSETS	<u>\$ 1,262,706.87</u>	<u>\$ 862,386.11</u>	<u>\$ 2,125,092.98</u>
CURRENT LIABILITIES			
Due to Other Funds	-	5,984.00	5,984.00
Current Portion of Long Term Debt	9,213.94	8,945.76	18,159.70
Meter Deposits	-	37,410.00	37,410.00
Total Current Liabilities	<u>9,213.94</u>	<u>52,339.76</u>	<u>61,553.70</u>
NONCURRENT LIABILITIES			
Notes Payable	163,014.72	367,053.36	530,068.08
Total Noncurrent Liabilities	<u>163,014.72</u>	<u>367,053.36</u>	<u>530,068.08</u>
TOTAL LIABILITIES	<u>172,228.66</u>	<u>419,393.12</u>	<u>591,621.78</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	489,805.17	304,783.04	794,588.21
Restricted for Debt Service	-	37,410.00	37,410.00
Unrestricted	600,673.04	100,799.95	701,472.99
TOTAL NET ASSETS	<u>1,090,478.21</u>	<u>442,992.99</u>	<u>1,533,471.20</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,262,706.87</u>	<u>\$ 862,386.11</u>	<u>\$ 2,125,092.98</u>

Town of Valliant
Statement of Activities - Modified Cash Basis
For the Year Ending June 30, 2012

Functions/Programs	Expenses	Program Revenues		Net (expense) revenue and Changes in net assets		Total
		Charges for Services	Operating Grants	Primary Government Governmental Activities	Business-Type Activities	
Primary Government						
Governmental Activities						
Administration and Council	57,254.69	15,115.19	-	(42,139.50)	-	(42,139.50)
Street and Alley	51,141.68	-	-	(51,141.68)	-	(51,141.68)
Fire Department	66,583.69	-	-	(66,583.69)	-	(66,583.69)
Maintenance and Operations	48,195.12	-	-	(48,195.12)	-	(48,195.12)
Police Department	214,403.28	54,438.60	-	(159,964.68)	-	(159,964.68)
Senior Citizens Nutrition	92,962.43	30,460.83	-	(62,501.60)	-	(62,501.60)
Court	-	3,965.82	-	3,965.82	-	3,965.82
Terry Building	13,810.86	-	-	(13,810.86)	-	(13,810.86)
Park	11,746.07	-	-	(11,746.07)	-	(11,746.07)
Cemetery	12,495.80	-	-	(12,495.80)	-	(12,495.80)
Total Governmental Activities	568,593.62	103,980.44	-	(464,613.18)	-	(464,613.18)
Business-Type Activities						
Water Department	287,000.52	223,233.96	-	-	(63,766.56)	(63,766.56)
Sewer Department	85,556.68	102,972.49	-	-	17,415.81	17,415.81
Sanitation Department	79,771.78	83,034.01	-	-	3,262.23	3,262.23
Total Business-Type Activities	452,328.98	409,240.46	-	-	(43,088.52)	(43,088.52)
Total Primary Government	\$ 1,020,922.60	\$ 513,220.90	\$ -	\$ (464,613.18)	\$ (43,088.52)	\$ (507,701.70)
General Revenues						
Sales Taxes				672,790.59	-	672,790.59
Other Taxes				82,967.59	-	82,967.59
Total General Revenue				755,758.18	-	755,758.18
Transfer In/Out				(29,288.48)	29,288.48	-
Change in Net Assets				261,856.52	(13,800.04)	248,056.48
Net Assets Beginning				828,621.69	456,793.03	1,285,414.72
Net Assets Ending				\$ 1,090,478.21	\$ 442,992.99	\$ 1,533,471.20

The accompanying footnotes are an integral part of these financial statements

**Town of Valliant
Governmental Funds
Balance Sheet - Modified Cash Basis
June 30, 2012**

	General Fund	Special Revenue Fund	Total Governmental Fund
ASSETS			
Cash in Bank	511,531.23	83,157.81	594,689.04
Due from Other Funds	<u>6,541.00</u>	-	<u>6,541.00</u>
Total Assets	<u><u>\$ 518,072.23</u></u>	<u><u>\$ 83,157.81</u></u>	<u><u>\$ 601,230.04</u></u>
LIABILITIES			
Due to Other Funds	<u>\$ -</u>	<u>\$ 557.00</u>	<u>\$ 557.00</u>
Total Liabilities	-	557.00	557.00
NET ASSETS			
Unrestricted	518,072.23	-	518,072.23
Assigned	-	<u>82,600.81</u>	<u>82,600.81</u>
Total Net Assets	<u><u>518,072.23</u></u>	<u><u>82,600.81</u></u>	<u><u>600,673.04</u></u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$ 518,072.23</u></u>	 <u><u>\$ 83,157.81</u></u>	 <u><u>\$ 601,230.04</u></u>

*Reconciliation of Total Governmental Fund Balance
to Net Assets of Governmental Activities*

Total Governmental Net Assets	600,673.04
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	662,033.83
Long-term liabilities, including capital leases, are not due and payable in the current period and therefore are not reported in the funds.	<u>(172,228.66)</u>
Net assets per the government wide financial statements	<u><u>\$ 1,090,478.21</u></u>

Town of Valliant
Governmental Funds
Statement of Revenues, Expenditures and Changes in Net Assets
Modified Cash Basis
For the Year Ending June 30, 2012

	General Fund	Special Revenue Fund	Total Governmental Fund
Revenues			
Taxes	\$ 748,652.23	\$ 7,105.95	\$ 755,758.18
Charges for Services	3,965.82	-	3,965.82
Police Fines	54,438.60	-	54,438.60
Other Revenues	45,576.02	-	45,576.02
Total Revenues	852,632.67	7,105.95	859,738.62
Expenditures			
Administration and Council	57,254.69	-	57,254.69
General Maintenance and Operations	48,195.12	-	48,195.12
Fire Department	332,820.38	-	332,820.38
Street and Alley	51,141.68	-	51,141.68
Police Department	247,446.61	-	247,446.61
Nutrition	59,794.43	-	59,794.43
Terry Building	13,810.86	-	13,810.86
Park	7,333.73	-	7,333.73
Cemetery	-	12,495.80	12,495.80
Total Expenses	817,797.50	12,495.80	830,293.30
Excess Revenues over Expenses	34,835.17	(5,389.85)	29,445.32
Other Financing Sources and Uses			
Capital Financing	177,428.80	-	177,428.80
Transfers In/Out	(49,891.43)	20,602.95	(29,288.48)
Total Other Financing Sources and Use	127,537.37	20,602.95	148,140.32
Change in Net Assets	162,372.54	15,213.10	177,585.64
Beginning Net Assets	355,699.69	67,387.71	423,087.40
Ending Net Assets	\$ 518,072.23	\$ 82,600.81	\$ 600,673.04

***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, 2012***

<i>Net Change in Fund Balances - Total Governmental Funds</i>	177,585.64
<i>Monies expended for debt service that reduce debt on the government wide financial statements but recorded as an expense on the fund financial statements.</i>	10,887.43
<i>Capital expenditures recorded as reductions in net assets in the fund financial statements but capitalized as fixed assets in the governmental financial statements.</i>	300,155.12
<i>Proceeds from capital financing recorded as revenue in the fund financial statements but recorded as a liability in the government wide financial statements.</i>	(177,428.80)
<i>Depreciation recorded in the governmental wide financial statements but not recorded in the fund financial statements.</i>	(49,342.87)
<i>Change in Net Assets per the Governmental Wide Financial Statements</i>	\$ 261,856.52

**Town of Valliant
Proprietary Fund
Statement of Net Assets - Modified Cash Basis
June 30, 2012**

ASSETS

CURRENT ASSETS

Cash and cash equivalents - Unrestricted	148,191.23
Cash - Restricted	<u>42,358.48</u>
Total Current Assets	190,549.71

NONCURRENT ASSETS

Net Capital Assets	<u>671,836.40</u>
Total Noncurrent Assets	671,836.40

TOTAL ASSETS	<u>\$ 862,386.11</u>
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LIABILITIES

CURRENT LIABILITIES

Due To Other Funds	5,984.00
Meter Deposits	37,410.00
Current Portion of Long Term Debt	<u>8,945.76</u>
Total Current Liabilities	<u>52,339.76</u>

NONCURRENT LIABILITIES

Bonds and Notes Payable	<u>367,053.36</u>
Total Noncurrent Liabilities	367,053.36

TOTAL LIABILITIES	<u>419,393.12</u>
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NET ASSETS

Invested in Capital Assets, Net of Related Debt	304,783.04
Restricted for Other Purposes	37,410.00
Unrestricted	<u>100,799.95</u>
TOTAL NET ASSETS	<u>442,992.99</u>

TOTAL LIABILITIES AND NET ASSETS	<u>\$ 862,386.11</u>
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**Town of Valliant
Proprietary Funds
Statement of Activities and Changes in Net Assets
Modified Cash Basis
For the Year Ending June 30, 2012**

Revenues	
Water Sales	\$ 209,626.49
Sewer Fees	102,972.49
Garbage Fees	83,034.01
Miscellaneous	<u>13,607.47</u>
Total Revenues	<u>409,240.46</u>
Operating Expenses	
Water Department	287,000.52
Sewer Department	85,556.68
Sanitation Contract	<u>79,771.78</u>
Total Operating Expenses	<u>452,328.98</u>
Change in Net Assets before Transfers	(43,088.52)
Transfers In/Out	29,288.48
Change in Net Assets	<u>(13,800.04)</u>
Beginning Net Assets	<u>456,793.03</u>
Ending Net Assets	<u>\$ 442,992.99</u>

The accompanying notes are an integral part of these financial statements

**Town of Valliant
Proprietary Fund
Statement of Cash Flows - Modified Cash Basis
For the Year Ending June 30, 2012**

Cash flows from operating activities	
Receipts from customers	409,240.46
Payments to employees	(60,154.38)
Payments to suppliers	<u>(288,891.41)</u>
Net cash provided by operating activities	60,194.67
 Cash flows from investing activities	
Investment in Fixed Assets	<u>-</u>
Net cash flows from investing activities	-
 Cash flows from capital and related financing activities	
Change in meter deposits	4,140.00
Principal paid on debt owed	<u>(10,606.44)</u>
Net cash flows from capital and related financing activities	(6,466.44)
 Net increase (decrease) in cash	 53,728.23
 Cash, Beginning of the Year	 <u>136,821.48</u>
Cash, End of the Year	<u>\$ 190,549.71</u>
 <i>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</i>	
Change in Net Assets	(13,800.04)
Adjustments to reconcile change in net assets to net cash provided	
Depreciation	<u>73,994.71</u>
Net cash provided by operating activities	<u>\$ 60,194.67</u>

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

Note 1-Summary of Significant Accounting Policies

Financial Reporting Entity

The Town of Valliant, Oklahoma is a statutory town Government under Oklahoma Statutes. The Town provides the following services: public safety, streets and highways, senior nutrition, cemetery, sanitation, public improvements, utilities and general administrative services.

The criteria used to determine which accounting entities, agencies, commissions, boards and authorities are part of the Town's operations include how the budget is adopted, whether debt is secured by general obligation of the Town, the Town's duty to cover any deficits that may occur, and supervision over the accounting functions. Any separate accounting entities would be considered component units. There are no agencies, organizations or activities meeting any of the above criteria that are excluded from the Town's reporting entity. As of June 30, 2012, the Town had only one component unit, the Valliant Public Works Authority.

Basis of Presentation-Fund Accounting

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

The Town's funds are grouped into two governmental fund types, general funds and special revenue funds. Proprietary funds include enterprise funds. As of June 30, 2012, the Town had governmental funds of general fund, street and alley fund, municipal court, municipal development, cemetery care, and senior citizens nutrition. The proprietary funds consisted of the Valliant Public Works Authority.

Basis of Accounting

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities display information about the Town, the primary government, as a whole. These statements distinguish between activities that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus and the modified cash basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

Indirect expenses for centralized services and administrative overhead are allocated among programs, functions and segments using a full cost allocation approach and are presented separately to enhance comparability of direct expenses between governments that allocate direct expenses and those that do

not. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the Town.

FUND FINANCIAL STATEMENTS

Fund financial statements report detailed information about the Town. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

GOVERNMENTAL FUNDS

All governmental funds are accounted for using modified accrual basis of accounting and the current financial resources measurement focus. Under this basis revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Revenue Recognition

Revenues are recognized when they are collected for the governmental funds and Valliant Public Works Authority. This revenue recognition policy is in effect for both the governmental wide financial statements and the fund financial statements.

Expenditure Recognition

Expenditures are recognized when they are paid. Under the modified cash basis of accounting the Town of Valliant records capital outlays as fixed assets in its government wide financial statements and as an expenditure in the fund financial statements. All capital outlays in the Valliant Public Works Authority are recorded as fixed assets.

PROPRIETARY FUNDS

All proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred. Allocation of costs, such as depreciation, are recorded in proprietary funds. The proprietary funds use standards issued by the Financial Accounting Standard Board whenever possible, if no FASB pronouncement is applicable then Government Accounting Standards Board pronouncements are used.

Cash and Cash Equivalents

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 short-term investments with original maturities of three months or less for the date of acquisition. Restricted cash consists of meter deposits.

Encumbrances

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

Budget

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

Risk Management

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

Estimates

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

Note 2-Deposits with Financial Institutions

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

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

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

All of the Town of Valliant's government and enterprise fund cash and investment accounts would be considered as category 1 up to its FDIC limits of \$250,000 for the governmental funds and \$250,000 for the Valliant Public Works Authority. The remaining funds would be category 3.

Note 3-Capital Assets and Depreciation

Capital Asset activity for the year ended June 30, 2012 was as follows:

<u>General Government</u>	Beginning			Ending
	Balance	Increases	Decreases	Balance
Buildings	\$ 1,259,240	\$ 264,713	\$ -	\$ 1,523,953
Equipment	691,690	35,422	-	727,112
	1,950,930	300,135	-	2,251,065
Accumulated Depreciation	(1,539,688)	(49,343)	-	(1,589,031)
Net Assets	<u>\$ 411,242</u>			<u>\$ 662,034</u>

As of June 30, 2012, the governmental funds had no capitalized assets that were not being depreciated or had not been depreciated. Depreciation is computed using the straight line method of depreciation over the estimated useful lives of the assets. Assets are recorded at cost or their estimated fair market value

for those assets where recorded were not available. Depreciation of \$49,343 for the governmental funds was recorded as follows: maintenance department - \$-0-; nutrition - \$33,168; park - \$4,412; general government - \$-0-; fire department - \$3,677 and police department - \$8,086.

<u>Public Works Authority</u>	Beginning Balance	Increases	Decreases	Ending Balance
Property, Plant & Equipment	\$ 1,205,976	\$ -	\$ -	\$ 1,205,976
Waste Water Plant	985,249	-	-	985,249
	2,191,225	-	-	2,191,225
Accumulated Depreciation	(1,445,394)	(73,995)	-	(1,519,389)
Net Assets	<u>\$ 745,831</u>			<u>\$ 671,836</u>

As of June 30, 2012, the Public Works Authority funds had no capitalized assets that were not being depreciated or had not been depreciated. Depreciation is computed using the straight line method of depreciation over the estimated useful lives of the assets. Assets are recorded at cost or their estimated fair market value for those assets where recorded were not available. Depreciation was recorded in the amount of \$73,995 for the Public Works Authority funds.

The Town and PWA capitalizes assets with an aggregate cost of \$2,500.

Note 4-Notes Payable

Public Works Authority

On August 25, 1995, Rural Economic & Community Development (RECD), formerly Farmers Home Administration, authorized the VPWA to borrow up to \$480,000 for the construction of a new wastewater sewer system. The term of the loan is 40 years at 4.5% per annum. A first payment of accrued interest only was paid on September 6, 1996, with monthly payments of \$2,180 due on the 6th of each subsequent month until paid in full in August 2036. Collateral for this loan is the sewer system and its associated revenues. Principal and interest in the amount of \$10,606 and \$15,554, respectively, was paid during the year ending June 30, 2012. The annual requirements to amortize the \$375,999 outstanding balance of this loan are as follows:

	Principal	Interest		
2012/2013	9,357	16,803	Balance, Beginning of Year	\$ 386,606
2013/2014	9,787	16,373	Principal Paid during Year	10,607
2014/2015	10,236	15,924	Balance, End of Year	<u>\$ 375,999</u>
2015/2016	10,706	15,454		
2016/2017	11,198	14,962		
2017/2022	64,197	66,603		
2022/2027	80,362	50,438		
2027/2032	100,597	30,203		
2032/2036	79,559	10,612		
	<u>\$ 375,999</u>	<u>\$ 237,371</u>		

General Fund

In 2011, the Town of Valliant obtained a loan with McCurtain County National Bank in the amount of \$177,429 for the construction of a new fire station. The interest rate is 3.75% with monthly payments of \$1,291, to mature in September 2016. Principal and interest in the amount of \$5,200 and \$5,125, respectively, was paid during the year ending June 30, 2012. The annual requirements to amortize the \$172,229 outstanding balance of this loan are as follows:

	<u>Principal</u>	<u>Interest</u>		
2012/2013	9,214	6,273	Balance, Beginning of Year	\$ 177,428
2013/2014	9,565	5,922	Principal Paid during Year	<u>5,200</u>
2014/2015	9,930	5,557	Balance, End of Year	<u><u>\$ 172,228</u></u>
2015/2016	10,309	5,178		
2016/2017	133,209	1,234		
	<u>\$ 172,228</u>	<u>\$ 24,162</u>		

Note 5-Subsequent Events

Subsequent events have been evaluated through September 6, 2012, which is the date the financial statements were issued.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees
Town of Valliant, Oklahoma

We have audited the 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 Town of Valliant, Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise the Town of Valliant's basic financial statements and have issued our report thereon dated September 6, 2012. The report on the Town of Valliant's governmental activities, business activities, each major fund and the aggregate remaining fund information was qualified due to the use of the modified cash basis of accounting. Also, management has elected to not present a management discussion and analysis and a budget to actual comparison. Which are required supplemental information. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. 2012-1 & 2012-2. 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.

Compliance and Other Matters

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

The Town of Valliant's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Town of Valliant's response and, accordingly, we express no opinion on it.

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

Casey J. Russell CPA, Inc.

Casey J. Russell CPA, Inc.
Oklahoma City, Oklahoma
September 6, 2012

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Schedule of Current Findings and Questioned Costs

2012 - 1 Recording of All Fund Activity and Balances (Repeat Finding)

Condition: The balances and activity of funds or separate bank accounts are not recorded in the general ledger accounting records of the Town of Valliant. In addition, balances and activity for the meter deposit funds are not being recorded in the general ledger.

Criteria: Proper recording of all funds and the balances, transactions, and other activity thereof, helps ensure complete and accurate financial reports can be prepared.

Cause: Unauthorized transactions or activities within the accounts could be conducted without the knowledge of management or the governing board. Financial reports prepared from the Town's general ledger accounting records are incomplete without the inclusion of these separate funds.

Recommendation: All accounts and funds of the Town should be included and properly recorded in the Town of Valliant's general ledger accounting records. All supporting documentation for deposits, receipts, and disbursements, as well as bank statements, for all the accounts should be provided to the treasurer for posting to the general ledger at least on a monthly basis. Bank reconciliations should be prepared on each bank account monthly. All general ledger balances should be adjusted to the monthly bank reconciliations.

Management's Response: The Town of Valliant will discuss this matter with the town treasurer to insure that all balances and transactions are properly reflected in the future.

2012 - 2 Lack of Segregation of Duties (Internal Control Issues) (Repeat Finding)

Condition: During our review of the internal control structure, we noted that several procedures lack the control of having duties segregated. We understand that due to the size of the town and number of personnel, many aspects related to segregation of duties cannot be implemented. However, we noted that certain bank accounts required only one signature. Also, reconciliations have not been prepared for the utility billings.

Criteria: We believe that internal control procedures would be strengthened by reviewing the individual tasks to determine whether internal control procedures could be improved.

Cause of Condition: Limited personnel

Recommendation: The town should also implement more internal controls by having more separation of duties. This could be done by having the personnel write receipts for all payments made regardless of type and then recording these payments on a daily payment ledger. All payments, receipts, and a copy of the daily receipt ledger should be given directly to the Treasurer at the end of the day. The town clerk or other personnel, except for the Treasurer, should then take the original daily payment ledger to record the payments in the system. Once all payments have been recorded in the system, the town clerk or other personnel should print off a payment listing from the system as well as a daily adjustment history to insure that no unnecessary adjustments have been made, the town clerk or other personnel should also prepare the deposit slip at this time and retain the carbon copy. These reports along with the original daily payment ledger and original of the deposit slip should be given to the Treasurer who should then compare the total payments and receipts written to the daily payment ledger, daily payment listing from system, and daily adjustment history. The Treasurer should then staple all documents together and give these back to the town clerk or other personnel. When the Treasurer returns from the bank she should give the bank deposit receipt to the town clerk or other personnel who should compare the receipt to the previous documents given to her by the Treasurer and also compare the carbon copy of the deposit slip to the bank deposit receipt. The town clerk or other personnel should then staple everything together and maintain for the audit files. The Utility Billing Clerk should reconcile the deposits to the monthly payment listing. This should be done monthly to insure that the payments recorded in the system match what is deposited into the bank.

Management Response: All checks now require two signatures whether there are two signature lines or not. In many cases due to our limited resources, controls will be limited. A no cash policy will be examined.