

**Town of Hallett**  
Hallett, Oklahoma

Audit Report  
June 30, 2012

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### Independent Auditor's Report

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

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of the Town of Hallett, State of 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. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the 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 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. I believe that my audit provides a reasonable basis for my opinion.

As discussed in Note 1 to the basic financial statements, the Town of Hallett, State of Oklahoma 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 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.

In my opinion, except for the effects, if any, on the financial statements of improper capital asset record keeping described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, major fund and the aggregate remaining fund information of the Town of Hallett, State of Oklahoma, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated February 06, 2014, on my consideration of the Town of Hallett, State of 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* and should be considered in assessing the results of my audit.

The Town of Hallett, State of Oklahoma, has not presented a Management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Hallett, State of Oklahoma's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards and State Awards and the combining and individual non-major governmental fund statements listed in the table of contents are presented for additional analysis and are not a required part of the basic financial statements. I subjected this information to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly presented in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Linda S. Woodruff, CPA, P.C." The signature is written in a cursive, flowing style.

Linda S Woodruff CPA, PC

Oklahoma City, Oklahoma 73172-1578  
February 06, 2014

**Town of Hallett**  
Hallett, Oklahoma

Basic Financial Statements  
June 30, 2012

**Town of Hallett**  
Statement of Net Assets  
June 30, 2012

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and Equivalents	\$ 59,549	\$ 71,337	\$ 130,886
Investments	27,339	10,000	37,339
Receivables	8,783	6,578	15,361
Internal Balances	-	-	-
Due from Other Governmental Agencies	-	-	-
Inventories	-	-	-
Other assets	1,377	-	1,377
Capital Assets			
Land, improvements, and construction in progress	600	11,000	11,600
Infrastructure and infrastructure in progress, net of depreciation	-	1,713,651	1,713,651
Buildings, net of depreciation	-	-	-
Equipment and Furniture, net of depreciation	147,996	-	147,996
Other Capital Assets, net of depreciation	-	-	-
Less Accumulated Depreciation	-	(399,182)	(399,182)
Total Capital Assets	<u>148,596</u>	<u>1,325,469</u>	<u>1,474,065</u>
Total Assets	<u>245,644</u>	<u>1,413,384</u>	<u>1,659,028</u>
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	(190)	11,513	11,323
Due to other governmental agencies	-	-	-
Deferred Revenues	-	-	-
Long-term liabilities			
Due within one year			
Bonds, capital leases and contracts	-	8,580	8,580
Accrued interest	-	-	-
Compensated Absences	-	-	-
Claims and judgments	-	-	-
Due in more than one year			
Bonds, capital leases and contracts	-	246,644	246,644
Accrued interest	-	-	-
Compensated absences	-	-	-
Claims and judgments	-	-	-
Total liabilities	<u>(190)</u>	<u>266,737</u>	<u>266,547</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	147,252	-	147,252
Restricted for			
Capital projects	-	-	-
Debt Service	-	-	-
Other projects	-	17,639	17,639
Unrestricted	98,582	1,129,007	1,227,589
Total net assets	<u>\$ 245,834</u>	<u>\$ 1,146,646</u>	<u>\$ 1,392,480</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, 2012

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
<b>Primary government</b>							
Governmental Activities							
General Government	\$ 31,778	\$ 515	\$ -	\$ -	\$ (31,263)	\$ -	\$ (31,263)
Public Safety	-	-	-	-	-	-	-
Public Works	-	-	-	-	-	-	-
Health, Welfare and Sanitation	-	-	-	-	-	-	-
Culture and Recreation	-	-	-	-	-	-	-
Education	-	-	-	-	-	-	-
Interest on Long-term debt	-	-	-	-	-	-	-
Total governmental activities	<u>31,778</u>	<u>515</u>	<u>-</u>	<u>-</u>	<u>(31,263)</u>	<u>-</u>	<u>(31,263)</u>
Business-type activities							
Public Works Authority	104,198	70,634	-	-	-	(33,564)	(33,564)
Total business-type activities	<u>104,198</u>	<u>70,634</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(33,564)</u>	<u>(33,564)</u>
Total primary government	<u>135,976</u>	<u>71,149</u>	<u>-</u>	<u>-</u>	<u>(31,263)</u>	<u>(33,564)</u>	<u>(64,827)</u>
<b>General revenues</b>							
Taxes							
Property taxes, levied for general purposes					\$ -	\$ -	\$ -
Property taxes, levied for debt service					-	-	-
Franchise taxes					3,527	-	3,527
Public service taxes					43,799	-	43,799
Grants and contributions not restricted to specific programs					-	21,000	21,000
Unrestricted investment earnings					435	284	719
Miscellaneous					22	-	22
<i>Special item</i> - gain on sale of asset					-	-	-
Transfers					(9,712)	-	(9,712)
Total general revenues, special items, and transfers					<u>38,071</u>	<u>21,284</u>	<u>59,355</u>
Change in net assets					6,808	(12,280)	(5,472)
Net assets - beginning					239,026	1,158,926	1,397,952
Net assets - ending					<u>\$ 245,834</u>	<u>\$ 1,146,646</u>	<u>\$ 1,392,480</u>

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, 2012

	<b>General Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 59,549	\$ -	\$ 59,549
Investments	27,339	-	27,339
Taxes receivable, net	-	-	-
Due from other funds	-	-	-
Receivable from other governments	-	-	-
Other receivables	8,783	-	8,783
Inventories	-	-	-
Prepaid expenses	1,377	-	1,377
Total assets	<u>97,048</u>	<u>-</u>	<u>97,048</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities			
Accounts payable	(190)	-	(190)
Due to other funds	-	-	-
Payable to other governments	-	-	-
Deferred revenue	-	-	-
Other accrued expenses	-	-	-
Other payables	-	-	-
Total liabilities	<u>(190)</u>	<u>-</u>	<u>(190)</u>
Fund balances			
Reserved for			
Inventories	-	-	-
Encumbrances	-	-	-
Prepaid expenses	-	-	-
Debt service	-	-	-
Other purposes	-	-	-
Unreserved	98,582		98,582
Unreserved, reported in non-major:			
Special revenue funds		-	-
Capital projects funds		-	-
Debt service funds		-	-
Permanent Endowment Fund		-	-
Total fund balances	<u>98,582</u>	<u>-</u>	<u>98,582</u>
Total liabilities and fund balances	<u>\$ 98,392</u>	<u>\$ -</u>	<u>\$ 98,392</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, 2012

Total fund balance, governmental funds	\$	98,582
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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.		147,252
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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		<div style="border-top: 1px solid black; border-bottom: 3px double black; padding: 2px 0;">245,834</div>
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**Town of Hallett**  
Statement of Revenues, Expenditures, and Changes in Fund Balances: Governmental Funds  
for the year ended June 30, 2012

	<b>General Fund</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>		
Property Taxes	\$ -	\$ -
Sales and miscellaneous taxes	47,326	47,326
Fees and fines	-	-
Licenses and permits	-	-
Intergovernmental	-	-
Charges for services	515	515
Investment earnings	435	435
Miscellaneous	22	22
Total revenues	<u>48,298</u>	<u>48,298</u>
<b>LIABILITIES</b>		
Current		
General government	31,778	31,778
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>31,778</u>	<u>31,778</u>
Excess (deficiency) of revenues over expenditures	<u>16,520</u>	<u>16,520</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	(9,712)	(9,712)
Total other financing sources and uses	<u>(9,712)</u>	<u>(9,712)</u>
<b>SPECIAL ITEM</b>		
Proceeds from sale of land	-	-
Net change in fund balances	6,808	6,808
Fund balances - beginning	91,774	91,774
Fund balances - ending	<u>\$ 98,582</u>	<u>\$ 98,582</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, 2012**

Net change in fund balances - total governmental funds: \$ 6,808

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 \$0 exceeded depreciation \$0 in the current period. -

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 -

Internal service funds are used by management to charge the costs of certain activities, such as fleet maintenance and information technology, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities. -

Change in net assets of governmental activities	\$	6,808
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The accompanying Notes to the Basic Financial Statement are an integral part of the Basic Financial Statement

**Town of Hallett**  
Statement of Net Assets: Proprietary Funds  
for the year ended June 30, 2012

	<b>Enterprise Funds</b>	
	<b>Public Works Authority</b>	<b>Total</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 71,337	\$ 71,337
Investments	10,000	10,000
Accounts Receivable, net	6,578	6,578
Deferred charges	-	-
Due from other funds	-	-
Receivables from other governments	-	-
Other receivables	-	-
Inventories	-	-
Prepaid Expenses	-	-
Total current assets	<u>87,915</u>	<u>87,915</u>
Non-current assets:		
Capital Assets:		
Land and improvements	11,000	11,000
Infrastructure	1,713,651	1,713,651
Utility System	-	-
Construction in Progress	-	-
Buildings	-	-
Equipment and Furniture	-	-
Less Accumulated depreciation	(399,182)	(399,182)
Total non-current assets	<u>1,325,469</u>	<u>1,325,469</u>
Total assets	<u><u>1,413,384</u></u>	<u><u>1,413,384</u></u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	638	638
Salaries payable	-	-
Accrued interest payable	-	-
Due to other funds	-	-
Payable to other governments	-	-
Other accrued expenses	10,875	10,875
Deferred revenue	-	-
Compensated absences	-	-
Capital lease obligation	-	-
Claims and judgments	-	-
Bonds, notes and loans payable	8,580	8,580
Total current liabilities	<u>20,093</u>	<u>20,093</u>
Non-current liabilities:		
Compensated absences	-	-
Capital lease obligation	-	-
Claims and judgments	-	-
Bonds, notes and loans payable	246,644	246,644
Total non-current liabilities	<u>246,644</u>	<u>246,644</u>
Total liabilities	<u><u>266,737</u></u>	<u><u>266,737</u></u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	-	-
Restricted for debt service	-	-
Restricted for capital projects	-	-
Restricted for other purposes	17,639	17,639
Unrestricted	1,129,007	1,129,007
Total net assets	<u><u>\$ 1,146,646</u></u>	<u><u>\$ 1,146,646</u></u>

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 Assets: Proprietary Funds  
for the year ended June 30, 2012

	<b>Enterprise Funds</b>	
	<b>Public Works Authority</b>	<b>Total</b>
<b>REVENUES</b>		
Charges for services	\$ 70,634	\$ 70,634
Miscellaneous	-	-
Total operating revenues	<u>70,634</u>	<u>70,634</u>
<b>OPERATING EXPENSES</b>		
Personal services	19,969	19,969
Contractual services	11,845	11,845
Utilities	4,207	4,207
Repairs and maintenance	6,227	6,227
Other supplies and expenses	11,885	11,885
Insurance claims and expenses	-	-
Depreciation	39,029	39,029
Total Operating Expenses	<u>93,162</u>	<u>93,162</u>
Operating income (loss)	<u>(22,528)</u>	<u>(22,528)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Interest and investment revenue	284	284
Miscellaneous revenue	-	-
Operating grants and contributions	21,000	21,000
Interest expense	(11,036)	(11,036)
Miscellaneous expenses	-	-
Total non-operating revenue (expenses)	<u>10,248</u>	<u>10,248</u>
Income (loss) before contributions and transfers	<u>(12,280)</u>	<u>(12,280)</u>
Capital contributions	-	-
Transfers in	-	-
Transfers out	-	-
Special item - gain (loss) on sale of land	-	-
Change in net assets	<u>(12,280)</u>	<u>(12,280)</u>
Total net assets - beginning	<u>1,158,926</u>	<u>1,158,926</u>
Total net assets - ending	<u>\$ 1,146,646</u>	<u>\$ 1,146,646</u>

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, 2012

	<u><b>Public Works Authority</b></u>
<b>Cash Flows from Operating Activities</b>	
Cash Received from Customers & Service Users	\$ 70,634
Cash Payments for Goods & Services & Employees	(65,910)
<b>Net Cash Provided by Operating Activities</b>	<u>4,724</u>
<b>Cash Flows from Noncapital Financing Activities</b>	
Meter Deposits - Net	1,255
Grant	21,000
<b>Net Cash Provided (Used) for Noncapital Financing Activities</b>	<u>22,255</u>
<b>Cash Flows from Capital and Related Financing Activities</b>	
Acquisition & Construction of Capital Assets	-
Principal Paid on Debt	(8,212)
<b>Net Cash Provided (Used) for Capital and Related Financing Activities</b>	<u>(8,212)</u>
<b>Cash Flows from Investing Activities</b>	
Interest on Investments	284
<b>Net Cash Provided by investing Activities</b>	<u>284</u>
<b>Net Increase (Decrease) in Cash &amp; Cash Equivalents</b>	19,051
<b>Cash and Cash Equivalents - Beginning of Year</b>	<u>62,286</u>
<b>Cash and Cash Equivalents - End of Year</b>	<u><u>\$ 81,337</u></u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>	
Operating Income	\$ <u>(33,564)</u>
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities</b>	
Depreciation	39,029
Change in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable	(167)
(Increase) Decrease in Prepaids	-
Increase (Decrease) in Payroll Taxes	(574)
<b>Total Adjustments</b>	<u>38,288</u>
<b>Net Cash Provided by Operating Activities</b>	<u><u>\$ 4,724</u></u>

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

**Town of Hallett**  
Hallett, Oklahoma

Notes to the Basic Financial Statements  
June 30, 2012

**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). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the Town has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the Town has chosen not to do so. 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

The Hallett Public Works Authority (the PWA) was created pursuant to a Trust Indenture dated January 10, 1977, to acquire, construct, lease and operate the water facilities for the benefit of the Town of Hallett, Oklahoma. The PWA is empowered to incur debt for the purpose stated above. The water systems owned by the Town have been leased to the PWA. The PWA is a public trust and an agency of the State of Oklahoma under Title 60, Oklahoma Statutes and is governed by a 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.

The Hallett Gas Authority (the Authority) was created pursuant to a Trust Indenture dated June 29, 1988, to provide gas utilities for the benefit of the Town of Hallett, Oklahoma. The gas systems owned by the Town have been leased to the Authority. The Authority is a public trust and an agency of the State of Oklahoma under Title 60, Oklahoma and is governed by a board consisting of three trustees identical with the Town Council. The Authority is exempt from State and Federal income taxes and is reported as an enterprise fund.

**Town of Hallett**  
Hallett, Oklahoma

Notes to the Basic Financial Statements  
June 30, 2012

**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 assets 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 assets 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 assets 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. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

**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 two categories of funds: governmental and proprietary.



**Town of Hallett**  
Hallett, Oklahoma

Notes to the Basic Financial Statements  
June 30, 2012

**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 unmatured 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.

**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**  
Hallett, Oklahoma

Notes to the Basic Financial Statements  
June 30, 2012

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

**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 Town is "behind" on the reserve requirement by \$3,125, therefore the monthly contributions should be restarted. 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.

**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.

**Town of Hallett**  
Hallett, Oklahoma

Notes to the Basic Financial Statements  
June 30, 2012

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

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

**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.

All reported capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets.

Depreciation is computed on the straight-line method with estimated useful lives as follows:

Description	Governmental Activities	Business-Type Activities
	Estimated Lives	Estimated Lives
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

**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.

**Town of Hallett**  
Hallett, Oklahoma

Notes to the Basic Financial Statements  
June 30, 2012

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

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

**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 Assets/Fund Balance**

In the government-wide financial statement, net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are 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. The Town applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

In the fund financial statement, governmental funds report reservations of fund balances that are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriations or expenditure. Designations of fund balances are not required by law but represent the classification or funds that are earmarked by the Town's management for specific purposes and may be subject to change.

**2. Stewardship, Compliance and Accountability**

**A. Grants & Awards**

The Town was the recipient of the following grants during the year:

The Town was awarded a REAP grant totaling \$21,000. All grant funds were expended during the year and the contract was closed prior to the fiscal year end.

**Town of Hallett**  
Hallett, Oklahoma

Notes to the Basic Financial Statements  
June 30, 2012

**3. Detailed Notes Concerning the Funds**

**A. Deposits and Investments**

At June 30, 2012, the Town held deposits of approximately \$168,225 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.

*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 bankers 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, an din 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, 2012, are as follows:

**Investments**

Certificate of Deposit	#40398	1 year	\$ 3,990.00
Certificate of Deposit	#41531	1 year	3,350.00
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	<u>10,000.00</u>
Total Investments			<u>\$ 37,340.00</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 certificates of deposit.

**Town of Hallett**  
Hallett, Oklahoma

Notes to the Basic Financial Statements  
June 30, 2012

**3. 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 6/30/11	Net Changes	Balance 6/30/12
General Fixed Assets			
Land	\$ 600	\$ -	\$ 600
Property, Plant & Equipment	54,337	-	54,337
Streets	136,575	-	136,575
Sub-Total	191,512	-	191,512
Accumulated Depreciation	(46,918)	(4,054)	(50,972)
Total	<u>\$ 144,594</u>	<u>\$ (4,054)</u>	<u>\$ 140,540</u>
Hallett Public Works Authority			
Land	\$ 11,000	\$ -	\$ 11,000
Property, Plant & Equipment	1,326,040	-	1,326,040
Streets	387,612	-	387,612
Sub-Total	1,724,652	-	1,724,652
Accumulated Depreciation	(360,154)	(39,029)	(399,183)
Total	<u>\$ 1,364,498</u>	<u>\$ (39,029)</u>	<u>\$ 1,325,469</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, 2011	Additions	Reductions	Balance June 30, 2012
Berkadia - Water	\$ 38,182	\$ -	\$ 3,696	\$ 34,486
Berkadia - Water	14,209	-	1,716	12,493
Rural Development - Sewer	47,440	-	750	46,690
Rural Development - Sewer	163,605	-	2,050	161,555
Total	<u>263,436</u>	<u>-</u>	<u>8,212</u>	<u>255,224</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**  
Hallett, Oklahoma

Notes to the Basic Financial Statements  
June 30, 2012

**3. 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
2013	\$ 8,560	\$ 10,772	\$ 19,332
2014	8,970	10,362	19,332
2015	9,400	9,932	19,332
2016	9,850	9,482	19,332
2017	10,348	8,984	19,332
2018-2022	35,045	38,743	73,788
2023-2027	23,936	33,304	57,240
2028-2032	29,278	27,962	57,240
2033-2037	35,966	21,274	57,240
2038-2042	44,206	13,034	57,240
2043-2046	39,665	3,265	42,930
Total	\$ <u>255,224</u>	\$ <u>187,114</u>	\$ <u>442,338</u>

**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	\$ 9,354
Reserved for Loan Requirements	<u>8,285</u>
Total Restricted Assets	<u>\$ 17,639</u>

**Town of Hallett**  
Hallett, Oklahoma

Notes to the Basic Financial Statements  
June 30, 2012

**4. 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 Authorities do not provide health insurance, pension benefits or deferred compensation plans for any of its employees.



**Town of Hallett**  
Hallett, Oklahoma

Required Supplemental Information  
June 30, 2012

**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, 2012**  
**(Unaudited)**

	<b>Budgeted Amounts</b>		<b>Actual Amounts, Budgetary Basis</b>	<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Property Taxes	\$ -	\$ -	\$ -	\$ -
Sales and miscellaneous taxes	(27,225)	(27,225)	47,326	74,551
Fees and fines	-	-	-	-
Licenses and permits	-	-	-	-
Intergovernmental	-	-	-	-
Charges for services	(665)	(665)	515	1,180
Investment earnings	(700)	(700)	435	1,135
Miscellaneous	-	-	22	22
Total revenues	<u>(28,590)</u>	<u>(28,590)</u>	<u>48,298</u>	<u>76,888</u>
<b>EXPENDITURES</b>				
Current:				
General government	65,000	65,000	31,778	33,222
Public Safety	-	-	-	-
Highways and roads	-	-	-	-
Health and sanitation	-	-	-	-
Culture and recreation	-	-	-	-
Education	-	-	-	-
Debt Service:				
Principal	-	-	-	-
Interest and other charges	-	-	-	-
Capital Outlay	45,000	35,250	-	35,250
Total Expenditures	<u>110,000</u>	<u>100,250</u>	<u>31,778</u>	<u>68,472</u>
Excess (deficiency) of revenues over expenditures	<u>(138,590)</u>	<u>(128,840)</u>	<u>16,520</u>	<u>145,360</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from capital leases	-	-	-	-
Transfers in	-	-	-	-
Transfers out	-	(9,750)	(9,712)	(38)
Total other financing sources and uses	<u>-</u>	<u>(9,750)</u>	<u>(9,712)</u>	<u>(38)</u>
<b>SPECIAL ITEM</b>				
Proceeds from sale capital assets	-	-	-	-
Net change in fund balances	<u>(138,590)</u>	<u>(138,590)</u>	<u>6,808</u>	<u>(145,398)</u>
Fund balances - beginning				-
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying Notes 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, 2012  
(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

Report Required by *Government Auditing Standards*  
June 30, 2012

**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Base on an Audit of Financial Statements Performed in Accordance with *Governmental Auditing Standards***

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

I 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 Hallett, State of Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise Town of Hallett, State of Oklahoma 's basic financial statements and have issued my report thereon dated February 06, 2014. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings, I identified certain deficiencies in internal control over financial reporting that I consider to be material weaknesses and other deficiencies that I consider to be significant deficiencies.

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 to be material weaknesses. 2012-01.

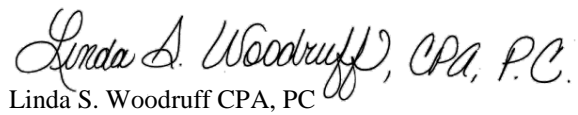
A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiencies described in the accompany schedule of findings to be significant deficiencies. 2012-01.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Town of Hallett, State of 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 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 the findings identified in my audit is described in the accompanying schedule of findings. I did not audit Town of Hallett, State of Oklahoma's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of management, Town Council, 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.

  
Linda S. Woodruff CPA, PC

Oklahoma City, Oklahoma  
February 06, 2014

**Town of Hallett**  
Hallett, Oklahoma

Schedule of Findings and Questioned Costs

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

2012-01. 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. This finding was also noted in 2009.

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.