
THE TOWN OF DRUMMOND
(Including the Drummond Public Works Authority)

FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
The Town of Drummond, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each fund of the Town of Drummond, Oklahoma, as of and for the year ended December 31, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Town of Drummond. Our responsibility is to express opinions on these financial statements based on our audit.

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 *Governmental 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 opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each fund of the Town of Drummond as of December 31, 2011, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2012, on our consideration of the internal control over financial reporting of the Town of Drummond and on 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 omitted the management's discussion and analysis and the budgetary comparison schedules that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.



C.P.A., Inc.

Becky Fleming, C.P.A., Inc.
May 16, 2012

**THE TOWN OF DRUMMOND
STATEMENT OF NET ASSETS
DECEMBER 31, 2011**

	Governmental Activities	Business-Type Activities	Total 2011
ASSETS			
Current Assets			
Cash and demand deposits	\$23,062	\$40,466	\$63,528
Restricted cash (Note 3)	70,159	7,618	77,777
Certificates of deposit	59,719	0	59,719
Accounts receivable	5,350	18,487	23,837
Allowance for doubtful accounts	0	(5,983)	(5,983)
Internal balances	13,983	(13,983)	0
Total current assets	172,273	46,605	218,878
Property and Equipment			
Depreciable property and equipment	240,984	642,309	883,293
Accumulated depreciation	(109,230)	(208,084)	(317,314)
Net depreciable assets	131,754	434,225	565,979
Land	0	6,949	6,949
Net property and equipment	131,754	441,174	572,928
TOTAL ASSETS	304,027	487,779	791,806
LIABILITIES			
Meter deposits refundable	0	7,618	7,618
NET ASSETS			
Invested in capital assets	131,754	441,174	572,928
Restricted for:			
Streets	7,161	0	7,161
Fire department	94,366	0	94,366
Unrestricted	70,746	38,987	109,733
TOTAL NET ASSETS	\$304,027	\$480,161	\$784,188

The accompanying notes are an integral part of these financial statements

THE TOWN OF DRUMMOND
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

Functions/Programs	Expenses	Program Revenues			Net Revenues (Expenses) and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total 2011
Governmental activities:							
General government	(\$24,999)	\$3,470	\$378	\$0	(\$21,151)	\$0	(\$21,151)
Police department	(26,809)	2,407	0	0	(24,402)	0	(24,402)
Street department	(27,541)	0	21,236	0	(6,305)	0	(6,305)
Fire department	(63,732)	25	74,130	0	10,423	0	10,423
Total governmental activities	(143,081)	5,902	95,744	0	(41,435)	0	(41,435)
Business-type activities:							
Administration	(73,156)	0	0	0	0	(73,156)	(73,156)
Sewer department	(2,574)	34,514	0	0	0	31,940	31,940
Trash department	(33,664)	36,054	0	0	0	2,390	2,390
Water department	(74,949)	94,725	0	0	0	19,776	19,776
Total business-type activities	(184,343)	165,293	0	0	0	(19,050)	(19,050)
Total all activities	(327,424)	171,195	95,744	0	(41,435)	(19,050)	(60,485)
General revenues:							
Taxes:							
Sales and use taxes levied for general purposes					31,377	0	31,377
Sales and use taxes levied for police, streets, and fire					4,827	0	4,827
Franchise and public service taxes					13,571	0	13,571
Other general revenues					1,644	9,749	11,393
Investment income					769	52	821
Interfund transfers					1,200	(1,200)	0
Total general revenues and transfers					53,388	8,601	61,989
Change in net assets					11,953	(10,449)	1,504
Beginning net assets					292,074	490,610	782,684
Ending net assets					\$304,027	\$480,161	\$784,188

The accompanying notes are an integral part of these financial statements

**THE TOWN OF DRUMMOND
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011**

	General Fund	Street and Alley Fund	Fire Department Fund	Total Governmental Funds
ASSETS				
Demand deposits	17,197	2,069	3,796	23,062
County sales tax funds	0	0	70,159	70,159
Certificates of deposit	59,719	0	0	59,719
Revenue receivable	4,149	772	429	5,350
Due from other funds	0	4,320	19,982	24,302
TOTAL ASSETS	81,065	7,161	94,366	182,592
LIABILITIES				
Due to other funds	10,319	0	0	10,319
FUND BALANCE				
Restricted for:				
Streets	0	7,161	0	7,161
Fire department	0	0	94,366	94,366
Unassigned	70,746	0	0	70,746
TOTAL FUND BALANCE	70,746	7,161	94,366	172,273
TOTAL LIABILITIES AND FUND BALANCE	81,065	7,161	94,366	182,592
Reconciliation of fund balances to net assets of governmental activities:				
Fund balance	70,746	7,161	94,366	172,273
Depreciable capital assets	116,285	40,139	84,560	240,984
Accumulated depreciation	(62,871)	(3,699)	(42,660)	(109,230)
Net Assets	124,160	43,601	136,266	304,027

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**THE TOWN OF DRUMMOND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	General Fund	Street and Alley Fund	Fire Department Fund	Total Governmental Funds
REVENUES				
Sales and use taxes - unrestricted	21,723	4,827	4,827	31,377
Sales and use taxes - restricted	4,827	0	0	4,827
Franchise taxes	13,571	0	0	13,571
Shared taxes	1,397	3,801	67,413	72,611
Rents and royalties	3,470	0	25	3,495
Police fines	2,407	0	0	2,407
Other revenues	246	0	0	246
Interest	769	0	0	769
Donations & fund raisers	378	0	2,305	2,683
Grants	0	17,436	4,413	21,849
TOTAL REVENUES	48,788	26,064	78,983	153,835
EXPENDITURES				
General government	20,113	0	0	20,113
Police department	26,501	0	0	26,501
Street department	0	25,764	0	25,764
Fire department	0	0	59,219	59,219
Capital outlay	5,692	0	44,040	49,732
TOTAL EXPENDITURES	52,306	25,764	103,259	181,329
REVENUES OVER (UNDER) EXPENDITURES	(3,518)	300	(24,276)	(27,494)
OTHER FINANCING SOURCES (USES)				
Interfund transfers	1,200	0	0	1,200
NET CHANGE IN FUND BALANCES	(2,318)	300	(24,276)	(26,294)
BEGINNING FUND BALANCE	73,064	6,861	118,642	198,567
ENDING FUND BALANCE	70,746	7,161	94,366	172,273
Reconciliation of the change in fund balances to the change in net assets of governmental activities:				
Net change in fund balances	(2,318)	300	(24,276)	(26,294)
Depreciation expense	(5,194)	(1,778)	(4,513)	(11,485)
Purchase of fixed assets	5,692	0	44,040	49,732
Change in Net Assets	(1,820)	(1,478)	15,251	11,953

The accompanying notes are an integral part of these financial statements

**DRUMMOND PUBLIC WORKS AUTHORITY
STATEMENT OF NET ASSETS
DECEMBER 31, 2011**

	<u>Utility Fund</u>
ASSETS	
Current Assets	
Cash in bank	\$40,466
Cash in bank - restricted deposits	7,618
Accounts receivable	18,487
Allowance for uncollectible accounts	<u>(5,983)</u>
Total current assets	60,588
Depreciable Capital Assets	
Buildings	16,399
Equipment	69,361
Sewer system	40,457
Water system	516,092
Less accumulated depreciation	<u>(208,084)</u>
Net depreciable capital assets	434,225
Land	<u>6,949</u>
Net property, plant and equipment	<u>441,174</u>
TOTAL ASSETS	<u>501,762</u>
LIABILITIES AND NET ASSETS	
Long-term Liabilities	
Meter deposits refundable	<u>7,618</u>
TOTAL LIABILITIES	21,601
NET ASSETS	
Invested in capital assets	441,174
Unrestricted	<u>38,987</u>
TOTAL NET ASSETS	<u><u>\$480,161</u></u>

The accompanying notes are an integral part of these financial statements

**DRUMMOND PUBLIC WORKS AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Utility Fund</u>
OPERATING REVENUES	
Sewer revenues	\$34,514
Trash revenues	36,054
Water revenues	94,725
Late payment penalties	6,684
Other revenues	3,065
TOTAL OPERATING REVENUES	<u>175,042</u>
OPERATING EXPENSES	
Administration department	73,156
Sewer department	2,574
Trash department	33,664
Water department	74,949
TOTAL OPERATING EXPENSES	<u>184,343</u>
OPERATING LOSS	(9,301)
NONOPERATING REVENUES	
Interest income	<u>52</u>
NET LOSS BEFORE TRANSFERS	(9,249)
TRANSFERS TO TOWN	<u>(1,200)</u>
NET INCOME	(10,449)
BEGINNING NET ASSETS	<u>490,610</u>
ENDING NET ASSETS	<u><u>\$480,161</u></u>

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**DRUMMOND PUBLIC WORKS AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Utility Fund</u>
Cash flows from operating activities:	
Cash received from customers	\$170,890
Cash payments for goods and services	(110,685)
Cash payments to employees	<u>(40,554)</u>
Net cash from operating activities	19,651
Cash flows from capital financing activities:	
Purchase of capital assets	(2,371)
Transfers to Town	<u>(1,200)</u>
Net cash from capital financing activities	(3,571)
Cash flows from investing activities:	
Interest receipts	<u>52</u>
Net cash from investing activities	52
Net increase (decrease) in cash	16,132
Beginning cash	<u>24,334</u>
Ending cash	<u><u>\$40,466</u></u>
Reconciliation of operating income to net cash provided by operations:	
Operating income	(9,301)
Adjustments to reconcile operating income to net cash from operations:	
Depreciation	21,580
Bad debts	11,676
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	(4,402)
Increase (decrease) in accounts payable	250
Increase (decrease) in interfund payables	<u>(152)</u>
Net cash provided by operations	<u><u>\$19,651</u></u>

The accompanying notes are an integral part of these financial statements

**The Town of Drummond
Notes to the Basic Financial Statements
As of and for the Year Ended December 31, 2011**

1. Summary of Significant Accounting Policies

The Town complies with generally accepted accounting principles (GAAP), which includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless they conflict with or contradict GASB pronouncements, in which case, GASB prevails. Although the Town has the option to apply FASB pronouncements issued after that date to its business-type activities, it has chosen not to do so. The Town changed its fiscal year end from June 30 to December 31 beginning with 2010.

For the fiscal year ended December 31, 2011, the Town implemented the new financial reporting requirements of GASB-54, which establishes new fund balance classifications for governmental funds. Fund balance will now be composed of three primary categories: nonspendable, restricted, and unrestricted. Nonspendable fund balance consists of amounts that are inherently nonspendable, such as inventories and prepaid expenses. Restricted amounts reflect amounts that are restricted by external sources. Unrestricted balances consist of amounts that either have no restriction, or that have been internally restricted by the town board of trustees. Currently the Town has no nonspendable fund balance and has no internal restrictions on its governmental fund balances.

1A. Financial Reporting Entity

The Town of Drummond (Town) operates under the Statutory Town Board of Trustees form of government and provides the following major services: public safety, streets, public improvements, planning and zoning, and general administration. In conformity with GASB-14, the financial statements of the following component unit have been included in the financial reporting entity as a blended component unit because its operating and financial relationship is significant to the town.

1B. Blended Component Units

The Drummond Public Works Authority (PWA), an entity legally separate from the Town, is governed by the same board of trustee that governs the Town. For financial reporting purposes, the PWA is reported as if it were part of the Town's operations because its purpose is to finance and provide water, sewer, and trash services to the citizens of the Town. The PWA does not issue separate financial statements.

1C. Basic Financial Statements

The Town's basic financial statements include both government-wide (reporting the Town as a whole) and fund financial statements (reporting the Town's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The Town's police, fire, streets and general administration

**The Town of Drummond
Notes to the Basic Financial Statements
As of and for the Year Ended December 31, 2011**

are classified as governmental activities. The Town's water, sewer, and trash services are classified as business-type activities.

1D. Government-wide Financial Statements

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity, which maintains only two funds. The statements distinguish between governmental and business-type activities. Governmental activities are financed by taxes, intergovernmental revenues, grants, fines, and other miscellaneous revenues. Business-type activities are financed by charges for services.

1E. Fund Financial Statements

The financial transactions of the Town are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, equity, revenues, and expenditures/expenses. The various funds are reported by generic classification within the financial statements. The following fund types are used by the Town:

Governmental Funds

The measurement focus of governmental funds in the fund statements is current financial resources. Generally, only current financial assets and liabilities are included on their balance sheets and only sources and uses of available spendable resources are presented on their operating statements. Fund balance is used as their measure of available spendable resources at the end of the period. The town uses three governmental funds: the general fund; the street and alley fund; and the fire department fund.

Proprietary Funds

The measurement focus of proprietary funds is economic resources, the objectives of which involves the determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The Town uses only one proprietary fund, an enterprise fund. Enterprise funds are used to account for operations for which a fee is charged to external users for goods or services and the activity is financed with debt that is solely secured by a pledge of the net revenues; has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges; or establishes fees and charges based on a pricing policy designed to recover similar costs.

**The Town of Drummond
Notes to the Basic Financial Statements
As of and for the Year Ended December 31, 2011**

1F. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Accrual Basis

Both governmental and business-type activities in the government-wide financial statements and proprietary fund financial statements are presented using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual Basis

The governmental funds financial statements are presented using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual (both measurable and available). Available means collectible within the current period or within 30 days after year end. Expenditures are generally recognized when the related liability is incurred.

1G. Cash and Cash Equivalents

The Town has defined cash equivalents for purposes of the cash flow statement to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

1H. Investments

Investments are accounted for in accordance with GASB-31, *Accounting and Financial Reporting for Certain Investments*, which states that investments held at year end with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. The Town has not formally adopted deposit and investment policies that limit its allowable deposits or investments and address the specific types of risk to which the Town is exposed.

1I. Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. The allowances for uncollectible accounts are based on historical trends and periodic aging.

The Town of Drummond
Notes to the Basic Financial Statements
As of and for the Year Ended December 31, 2011

1J. Interfund Activity

Interfund activity is reported either as loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other Interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

1K. Capital Assets

Capital assets purchased or acquired with an original cost of \$2,500 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives: buildings 20 to 40 years; vehicles and equipment 5 to 10 years; utility systems 40 years. Prior to December 31, 1998, the water and sewer systems were not capitalized. Improvements and replacements subsequent to December 31, 1998, have been capitalized and depreciated.

GASB-34 requires the Town to report and depreciate new infrastructure assets. Infrastructure assets include roads, sidewalks, bridges traffic signals, etc. These infrastructure assets are likely to be the largest asset class of the Town. Neither their historical cost nor related depreciation was reported in the financial statements prior to the implementation of GASB-34 in 2003. Retroactive reporting was not required.

1L. Compensated Absences

Town employees are entitled to certain compensated absences based on their length of employment. Such amounts are accrued as earned and reported in the financial statements.

1M. Revenues and Expenditures

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as needed. Program revenues in the government-wide statements 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 not classified as program revenues are presented as general revenues. In proprietary funds, operating revenues and expenses result from providing the goods or services that are the funds principal ongoing operations. Revenues and expenses not meeting this definition are nonoperating revenues and expenses. Subsidies and grants to proprietary funds, which finance either capital or current operations, are reported as nonoperating revenue based on GASB-33. In applying GASB-

**The Town of Drummond
Notes to the Basic Financial Statements
As of and for the Year Ended December 31, 2011**

33 to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before eligibility requirements are met are reported as advances by the provider and deferred revenue by the recipient.

2. Deposits and Certificates of Deposit

All deposits and certificates of deposit of the Town are fully insured.

The State of Oklahoma allows municipalities to invest in the following: direct obligations of the U.S. Government, its agencies or instrumentalities; collateralized or insured certificates of deposit; insured savings accounts or savings certificates; and county, municipal or school district direct debt.

3. Restricted Cash

County Fire Department Sales Tax Funds

County sales tax funds restricted for the Town's fire department are reported in the Town's financial statements for accountability and control purposes. The county spends the funds for Town operations at the Town's request. Balances reflected in the financial statements are: cash - \$70,159; intergovernmental revenues - \$66,213; expenditures: \$81,418.

4. Capital Assets

The fire department has the use of buildings and equipment purchased with Garfield county sales tax funds designated for the use of the Town of Drummond's fire department. The County holds title to such buildings and equipment, and they are carried on the county's books. The value of these assets is unknown.

Depreciation expense was charged to functions as follows:

Governmental activities		Business-type activities	
General government	4,886		
Police department	308	Administration	746
Street department	1,778	Sewer department	2,574
Fire department	4,513	Water department	18,260
	<u>11,485</u>		<u>21,580</u>

The Town of Drummond
Notes to the Basic Financial Statements
As of and for the Year Ended December 31, 2011

Capital asset activity for the year just ended is summarized as follows:

Governmental Activities	Beginning			Ending			Beginning		Ending	
	Balance	Added	Disposed	Balance	Deprec	Added	Disposed	Accum Deprec	Accum Deprec	Book Value
Buildings	72,921	5,692	0	78,613	22,274	3,695	0	25,969	25,969	52,644
Vehicles and equipment	81,062	44,040	0	125,102	73,980	6,299	0	80,279	80,279	44,823
Infrastructure	37,269	0	0	37,269	1,491	1,491	0	2,982	2,982	34,287
Total capital assets	191,252	49,732	0	240,984	97,745	11,485	0	109,230	109,230	131,754

Business-type Activities	Beginning			Ending			Beginning		Ending	
	Balance	Added	Disposed	Balance	Deprec	Added	Disposed	Accum Deprec	Accum Deprec	Book Value
Buildings	18,123	0	(1,724)	16,399	7,303	410	(1,724)	5,989	5,989	10,410
Equipment	74,138	0	(4,777)	69,361	29,207	4,298	(4,777)	28,728	28,728	40,633
Water system	513,720	2,371	0	516,091	133,529	16,279	0	149,808	149,808	366,283
Sewer system	40,457	0	0	40,457	22,965	593	0	23,558	23,558	16,899
Depreciable assets	646,438	2,371	(6,501)	642,308	193,004	21,580	(6,501)	208,083	208,083	434,225
Land	6,949	0	0	6,949	0	0	0	0	0	6,949
Total capital assets	653,387	2,371	(6,501)	649,257	193,004	21,580	(6,501)	208,083	208,083	441,174

5. Defined Benefit Pension Plan

Plan Description. The Town contributes to the Oklahoma Firefighters Pension and Retirement System (the System), a cost-sharing, multiple-employer, defined benefit pension plan administered by a 13-member board which acts as fiduciary for investment of funds and the application of plan interpretations. The System provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. The System is a component unit of the State of Oklahoma and is authorized under Title 11, Oklahoma Statutes 1981, sections 48-101 et. seq. The System issues a publicly available financial report that includes financial statements and required supplementary information for the plan and may be obtained from their offices at 4545 N. Lincoln Blvd., Suite 265, Oklahoma City, OK 73015, or by calling 1-800-525-7461.

Funding Policy. Volunteer firefighters are not required to contribute, but the Town is required to contribute \$60 per volunteer per year. The contribution requirements of the System are an established rate determined by Oklahoma Statutes and are not based on actuarial calculations. The Town's contribution to the System for the year ended December 31, 2011, 2010, and 2009 was \$840, \$960, and \$960 respectively, equal to the required contribution for each year.

**The Town of Drummond
Notes to the Basic Financial Statements
As of and for the Year Ended December 31, 2011**

6. Risk Management

The Town is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town manages this risk through the purchase of commercial insurance policies. Risk management activities are accounted for by fund, and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. There was no claims activity for the year just ended.

7. Budgets and Budgetary Accounting

The board of trustees adopts legally required annual operating budgets each year for each fund. The same generally accepted accounting principles basis of accounting used for financial reporting purposes is used for budgetary purposes. At the fund level, actual expenditures cannot exceed budgeted appropriations at the department level. Budgetary transfers between departments of the same fund are approved by the board when required. Supplemental appropriations, if needed, are approved by the board and submitted to the state auditor's office as required by state statutes. All appropriations lapse at the end of the fiscal year. Encumbrance accounting is not used.

8. Inter-fund Transactions

Interfund Transfers	General Fund	Street Fund	Fire Fund	Utility Fund	Total
Capital expenditures	1,200	0	0	(1,200)	0

Interfund Loans	General Fund	Street Fund	Fire Fund	Utility Fund	Total
Operating expenditures	(10,319)	4,320	19,982	(13,983)	0

9. Subsequent Events

Management performed an evaluation of the Town's activity through May 16, 2012, the date the audit report was available to be issued, and has concluded that there are no significant subsequent events requiring disclosure through that date.

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

The Board of Trustees
The Town of Drummond, Oklahoma

We have audited the financial statements of the governmental activities, the business-type activities, and each fund of the Town of Drummond, Oklahoma, as of and for the year ended December 31, 2011, which collectively comprise the basic financial statements of the Town of Drummond, and have issued our report thereon, dated May 16, 2012. 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

In planning and performing our audit, we considered the internal control over financial reporting of the Town of Drummond 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 the Town of Drummond's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Drummond's internal control over financial reporting.

Our 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 discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we 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. We consider the following deficiencies in the Town's internal control to be material weaknesses:

2011-1 There are no established procedures to ensure that capital assets are correctly recorded in the general ledger; that subsidiary schedules of capital assets are adequately maintained; or that donated capital assets are correctly recorded.

Response We will establish procedures to make sure all capital expenditures are properly recorded in the general ledger and that subsidiary schedules are adequately maintained and reconciled to the general ledger accounts.

2011-2 There is no segregation of duties between those maintaining the general ledger, the billing system, and performing reconciliations, and no compensating procedures to provide for oversight or review of those transactions.

Response Since we are a small town with our clerk/treasurer as the only administrative and bookkeeping employee, we do not have a way of segregating duties. However, we will try to find ways to establish better oversight procedures.

A significant deficiency is a deficiency, or 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. We consider the following deficiencies in the Town's internal control to be significant deficiencies:

2011-3 There are no established procedures to review the financial statements of each fund and to make sure that each fund is in balance.

Response We will establish procedures to make sure that every entry is in balance by fund and to review the financial statements of each fund at least monthly to make sure each fund is in balance.

2011-4 There are no established procedures for reviewing the general ledger for posting errors or for reconciling subsidiary reports to the general ledger.

Response We will establish procedures for reviewing the general ledger for posting errors and for making sure subsidiary reports are reconciled to the general ledger monthly.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the Town of Drummond 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 Drummond's response to the findings identified in our audit is described above. We did not audit the Town of Drummond's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the organization, and federal and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



Becky Fleming, C.P.A., Inc.

Becky Fleming, C.P.A., Inc.
May 16, 2012