
THE TOWN OF KREMLIN

(Including the Kremlin Public Works Authority)

FINANCIAL STATEMENTS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
The Town of Kremlin, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each fund of the Town of Kremlin, Oklahoma, as of and for the year ended June 30, 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 Kremlin. 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 Kremlin as of June 30, 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 April 11, 2012, on our consideration of the internal control over financial reporting of the Town of Kremlin, 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 schedule 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.
April 11, 2012

**TOWN OF KREMLIN
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2011**

	(Memo Only)			
	Governmental Activities	Business-Type Activities	Totals 2011	Totals 2010
ASSETS				
Current Assets				
Cash in bank	82,920	61,144	144,064	103,749
Certificates of deposit	59,487	29,880	89,367	88,172
Restricted cash	115,850	22,711	138,561	159,539
Revenue receivable	12,896	0	12,896	10,825
Accounts receivable	0	13,524	13,524	55,460
Allowance for doubtful accounts	0	(3,025)	(3,025)	(2,835)
Grants receivable	0	0	0	7,300
Internal balances	(557)	557	0	0
Total current assets	<u>270,596</u>	<u>124,791</u>	<u>395,387</u>	<u>422,210</u>
Noncurrent Assets				
Property and equipment	483,082	1,347,259	1,830,341	1,808,158
Accumulated depreciation	(219,374)	(428,769)	(648,143)	(607,026)
Total noncurrent assets	<u>263,708</u>	<u>918,490</u>	<u>1,182,198</u>	<u>1,201,132</u>
TOTAL ASSETS	<u><u>534,304</u></u>	<u><u>1,043,281</u></u>	<u><u>1,577,585</u></u>	<u><u>1,623,342</u></u>
LIABILITIES				
Current Liabilities				
Accounts payable	6,851	5,561	12,412	9,997
Accrued payroll liabilities	35	315	350	553
Construction accounts payable	0	0	0	4,329
Deferred grant revenues	0	0	0	2,971
Accrued interest payable	0	206	206	244
Current portion of long-term debt	0	6,050	6,050	5,600
Total current liabilities	<u>6,886</u>	<u>12,132</u>	<u>19,018</u>	<u>23,694</u>
Noncurrent liabilities				
Meter deposits refundable	0	4,695	4,695	4,895
Long-term debt, less current portion	0	114,100	114,100	120,150
Total noncurrent liabilities	<u>0</u>	<u>118,795</u>	<u>118,795</u>	<u>125,045</u>
TOTAL LIABILITIES	<u>6,886</u>	<u>130,927</u>	<u>137,813</u>	<u>148,739</u>
NET ASSETS				
Invested in capital assets, net of debt	263,708	798,340	1,062,048	1,075,382
Restricted for:				
Fire department	115,850	0	115,850	180,110
Debt service	0	16,368	16,368	16,358
Unrestricted	147,860	97,646	245,506	202,753
TOTAL NET ASSETS	<u><u>527,418</u></u>	<u><u>912,354</u></u>	<u><u>1,439,772</u></u>	<u><u>1,474,603</u></u>

The accompanying notes are an integral part of these financial statements

**TOWN OF KREMLIN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011**

Functions/Programs	Program Revenues		Net (Expense) Revenues and Changes in Net Assets	
	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities
Governmental activities:				
General government	(52,917)	625	(52,292)	0
Community building	(7,149)	0	(6,024)	0
Fire department	(49,713)	70,327	20,614	0
Street and alley department	(5,182)	2,167	(3,015)	0
Total governmental activities	(114,961)	73,119	(40,717)	0
Business-type activities:				
Administration department	(15,206)	0	(15,206)	0
Sewer department*	(61,790)	21,410	(40,380)	0
Trash department	(17,969)	21,307	3,338	0
Water department	(51,214)	75,704	24,490	0
Total business-type activities	(146,179)	118,421	(27,758)	(27,758)
Total all activities	(261,140)	119,546	(40,717)	(27,758)
		73,119	(40,717)	(68,475)
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				(15,253)
				(14,592)
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**TOWN OF KREMLIN
BALANCE SHEET
GOVERNMENTAL FUND
AS OF JUNE 30, 2011**

	<u>GENERAL FUND</u>
ASSETS	
Cash in bank	82,920
Certificates of deposit	59,487
Restricted cash	115,850
Revenue receivable	<u>12,896</u>
TOTAL ASSETS	<u><u>271,153</u></u>
 LIABILITIES	
Accounts payable	6,851
Accrued payroll liabilities	35
Due to other funds	<u>557</u>
TOTAL LIABILITIES	<u>7,443</u>
 FUND BALANCE	
Restricted:	
Fire department	115,850
Unrestricted:	
Unassigned	<u>147,860</u>
TOTAL FUND BALANCE	<u>263,710</u>
TOTAL LIABILITIES	<u><u>271,153</u></u>
AND FUND BALANCE	
 Reconciliation of fund balance to net assets of governmental activities:	
Fund balance	263,710
Capital assets	483,082
Accumulated depreciation	<u>(219,374)</u>
Net assets of governmental activities	<u><u>527,418</u></u>

The accompanying notes are an integral part of these financial statements

**TOWN OF KREMLIN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>GENERAL FUND</u>
REVENUES	
Sales and use taxes	50,238
Franchise tax	12,475
Shared taxes - fire department	63,480
Shared taxes - street & alley	2,167
Shared taxes - general government	792
Other revenues	38,558
Rentals of town property	1,125
Interest income	863
Grants	4,398
TOTAL REVENUES	<u>174,096</u>
EXPENDITURES	
General government	44,571
Community building	3,337
Fire department	29,517
Street and alley department	5,052
Capital outlay	69,826
TOTAL EXPENDITURES	<u>152,303</u>
REVENUES OVER (UNDER) EXPENDITURES	21,793
OTHER FINANCING SOURCES (USES)	
Transfers-in (out)	<u>(4,329)</u>
TOTAL OTHER FINANCING SOURCES (USES)	(4,329)
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	17,464
BEGINNING FUND BALANCE	302,066
Prior period adjustment	<u>(55,820)</u>
ENDING FUND BALANCE	<u><u>263,710</u></u>
Reconciliation of net change in fund balance to change in net assets of governmental activities:	
Net change in fund balances	17,464
Capital asset purchases capitalized	69,826
Gain on sale of capital asset	(13,668)
Depreciation expense	<u>(32,483)</u>
Change in Net Assets of Governmental Activities	<u><u>41,139</u></u>

The accompanying notes are an integral part of these financial statements

**TOWN OF KREMLIN
STATEMENT OF NET ASSETS
PROPRIETARY FUND
AS OF JUNE 30, 2011**

	<u>ENTERPRISE FUND</u>
ASSETS	
Current Assets	
Cash in bank	61,144
Certificates of deposit	29,880
Restricted cash	22,711
Accounts receivable	13,524
Allowance for doubtful accounts	(3,025)
Due from other funds	557
Total Current Assets	<u>124,791</u>
Noncurrent Assets	
Depreciable property and equipment	1,347,259
Accumulated depreciation	<u>(428,769)</u>
Total Property, Plant, and Equipment	<u>918,490</u>
TOTAL ASSETS	<u><u>1,043,281</u></u>
LIABILITIES	
Current Liabilities	
Accounts payable	5,561
Accrued payroll liabilities	315
Construction accounts payable	0
Accrued interest payable	206
Current portion of long-term debt	6,050
Total Current Liabilities	<u>12,132</u>
Noncurrent Liabilities	
Meter deposits refundable	4,695
Long-term debt, less current portion	114,100
Total Noncurrent Liabilities	<u>118,795</u>
TOTAL LIABILITIES	<u>130,927</u>
NET ASSETS	
Invested in capital assets, net of debt	798,340
Restricted for debt service	16,368
Unrestricted	97,646
TOTAL NET ASSETS	<u><u>912,354</u></u>

The accompanying notes are an integral part of these financial statements

**TOWN OF KREMLIN
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>UTILITY FUND</u>
OPERATING REVENUES	
Sewer revenue	21,410
Trash revenue	21,307
Water revenue	75,704
Other revenues	<u>2,836</u>
TOTAL OPERATING REVENUES	121,257
OPERATING EXPENSES	
Administration department	15,206
Sewer department	59,222
Trash department	17,969
Water department	<u>51,214</u>
TOTAL OPERATING EXPENSES	143,611
OPERATING INCOME (LOSS)	(22,354)
NON-OPERATING REVENUES (EXPENSES)	
Interest income	443
Interest expense	(1,818)
Trustee fees	<u>(750)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	(2,125)
INCOME (LOSS) BEFORE TRANSFERS	(24,479)
Interfund transfers	<u>4,329</u>
CHANGE IN NET ASSETS	(20,150)
BEGINNING NET ASSETS	<u>932,504</u>
ENDING NET ASSETS	<u><u>912,354</u></u>

The accompanying notes are an integral part of these financial statements

**TOWN OF KREMLIN
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>UTILITY FUND</u>
Cash flows from operations:	
Cash received from:	
Customers	119,927
Cash payments for:	
Goods and services	(86,183)
Employees	<u>(16,165)</u>
Net cash provided from operations	17,579
Cash flows from capital financing activities:	
Interest received	
Transfers to trust accounts	(7,464)
Trustee fees	(750)
Grant transfers	4,329
Capital assets	<u>(4,222)</u>
Net cash from capital financing activities	<u>(8,107)</u>
 Net increase (decrease) in cash	 9,472
 Beginning cash	 <u>51,672</u>
Ending cash	<u>61,144</u>
 Reconciliation of income from operations to net cash from operations:	
Operating income (loss)	(22,354)
Adjustments to income from operations:	
Depreciation	43,831
Bad debts	1,275
Change in assets and liabilities:	
(Increase) decrease in receivables	(3,904)
Increase (decrease) in payables	<u>(1,269)</u>
Net cash provided by operations	<u>17,579</u>
 Supplemental information:	
Trust accounts, beginning balance	16,358
Transfers from Town of Kremlin	7,464
Interest income	2
Principal	(5,600)
Interest payments	<u>(1,856)</u>
Trust accounts, ending balance	<u>16,368</u>

The accompanying notes are an integral part of these financial statements

**The Town of Kremlin
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 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.

For the fiscal year ended June 30, 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 balance.

1A. Financial Reporting Entity

The Town of Kremlin (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 Kremlin Public Works Authority (PWA), an entity legally separate from the Town, is governed by the same board of trustees 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 fire, ambulance, community building, streets and general government are classified as governmental activities. The Town's water, sewer, and trash services are classified as business-type activities.

**The Town of Kremlin
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2011**

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. The statements distinguish between governmental and business-type activities. Governmental activities are financed by taxes, intergovernmental revenues, grants, 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, reserves, fund 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.

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.

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.

**The Town of Kremlin
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2011**

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 and cash equivalents 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.

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

**The Town of Kremlin
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2011**

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 \$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	10 to 30 years
Equipment	5 to 15 years
Utility systems	5 to 40 years

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 has historically been reported in the financial statements. Retroactive reporting is not required.

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-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.

1N. Memo Only Totals

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended June 30, 2010, from which the summarized information was derived.

**The Town of Kremlin
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2011**

2. Stewardship, Compliance, and Accountability

The Oklahoma Water Resources Board requires the PWA to maintain a rate structure sufficient to provide net revenues available for debt service equal to at least 125% of the maximum annual debt service. For the year just ended, the PWA complied with this requirement.

3. Investments

Investments at the trustee bank, although not insured, are maintained in money market funds consisting of U.S. Government obligations. 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.

4. Restricted Cash

General fund restricted cash consists of county sales tax funds on deposit at the county and restricted for the Town's fire department use and restricted fire department donations. County funds are recorded on the Town's books for control and budgeting purposes only. The amounts at June 30 were \$111,065 and \$4,785 respectively.

Restricted cash in the utility fund consists of debt service and debt service reserves restricted by the terms of the Oklahoma Water Resource Board loan, and utility meter deposits. The amounts at June 30 were \$16,368 and \$6,343 respectively.

5. Capital Assets

Depreciation expense was charged to functions as follows:

Governmental activities

General government	8,347
Community building	3,811
Fire department	20,195
Street & alley department	130
Total depreciation	<u>32,483</u>

Business-type activities

Administration department	517
Sewer department	36,466
Water department	9,848
Total depreciation	<u>46,831</u>

The Town of Kremlin
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Capital asset activity for the year just ended is summarized as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities				
Depreciable assets				
Buildings	182,641	12,529	0	195,170
Equipment	282,479	59,297	(53,863)	287,913
Total depreciable assets	465,120	71,826	(53,863)	483,083
Depreciation				
Buildings	76,033	7,278	0	83,311
Equipment	149,055	25,205	(38,196)	136,064
Total depreciation	225,088	32,483	(38,196)	219,375
Net depreciable assets	240,032	39,343	(15,667)	263,708
Business-type activities				
Non-depreciable assets				
Construction in progress	40,671	0	(40,671)	0
Total non-depreciable assets	40,671	0	(40,671)	0
Depreciable assets				
Buildings	7,855	0	0	7,855
Equipment	13,052	0	0	13,052
Utility systems	1,281,460	44,892	0	1,326,352
Total depreciable assets	1,302,367	44,892	0	1,347,259
Depreciation				
Buildings	2,752	367	0	3,119
Equipment	12,827	150	0	12,977
Utility systems	366,360	46,314	0	412,674
Total depreciation	381,939	46,831	0	428,770
Net depreciable assets	920,428	(1,939)	0	918,489
Net business-type assets	961,099	(1,939)	(40,671)	918,489

6. Long-term Debt

Long-term debt activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Issued	Retired	Ending Balance	Due in One Year
Business-type Activities					
Note payable - sewer system	125,750	0	(5,600)	120,150	6,050

**The Town of Kremlin
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2011**

Outstanding debt at June 30, 2011 consisted of the following:

Business-type	Interest Rates	Rates Change	Original Balance	Year End Balance	Collateral
Sewer system	Variable	Quarterly	175,000	120,150	Utility revenues and mortgage
	1.550%	06/01/10			
	1.450%	09/01/10			
	1.550%	12/01/10			
	1.450%	03/01/11			
	1.370%	06/01/11			

The interest rate was reset by the Oklahoma Water Resources Board every six months according to the rate of interest on the Board's State Loan Program Revenue Bonds, Series 1994A. Beginning in May 2009, the OWRB changed the terms to quarterly to take advantage of the current low interest rates.

Debt service requirements to maturity are as follows:

	Business-type Activities		
	Principal	Interest	Total
2012	6,050	1,818	7,868
2013	6,600	1,732	8,332
2014	7,050	1,638	8,688
2015	7,650	1,538	9,188
2016	8,350	1,429	9,779
2017-2021	53,050	5,165	58,215
2022-2024	31,400	1,098	32,498
	<u>120,150</u>	<u>14,418</u>	<u>134,568</u>

7. Defined Benefit Pension Plans

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 73105, or by calling 1-800-525-7461.

The Town of Kremlin
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Funding Policy. Volunteer firefighters are not required to contribute, but the Town is required to contribute \$60 per volunteer per year. The contribution requirement of the System is determined by Oklahoma Statute and is not based on actuarial calculations. The Town's contribution to the System for the year ended June 30, 2011, 2010 and 2009 was \$840, \$780 and \$660 respectively equal to the required contribution for each year.

8. 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.

9. 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. For the year just ended, no amendments were approved by the trustees.

10. Subsequent Events

Management performed an evaluation of the Town's activity through April 11, 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.

11. Interfund Transfers

Inter-fund transfers of \$4,329 consisted of grant funds for sewer system improvements.

**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 Kremlin, Oklahoma

We have audited the financial statements of the governmental activities, the business-type activities, and each fund of the Town of Kremlin, Oklahoma, as of and for the year ended June 30, 2011, which collectively comprise the basic financial statements of the Town of Kremlin, and have issued our report thereon, dated April 11, 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 Kremlin 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 Kremlin's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Kremlin'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

**The Town of Kremlin
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2011**

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 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 Kremlin 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 Kremlin
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2011**

The Town of Kremlin's response to the findings identified in our audit is described above. We did not audit the Town of Kremlin'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.
April 11, 2012