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

FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012

BECKY FLEMING, C.P.A., INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
The Town of Drummond, Oklahoma

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Drummond, Oklahoma, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 major fund of the Town of Drummond, Oklahoma, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Management has omitted management's discussion and analysis and the budgetary comparison information for the governmental funds 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 8, 2013, 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* in considering the Town of Drummond's internal control over financial reporting and compliance.

 C.P.A., Inc.

Becky Fleming, C.P.A., Inc.
August 8, 2013

**THE TOWN OF DRUMMOND
STATEMENT OF NET POSITION
DECEMBER 31, 2012**

	Governmental Activities	Business-Type Activities	Total 2012	(Memo Only) 2011
ASSETS				
Current Assets				
Cash and demand deposits	\$26,248	\$44,187	\$70,435	\$63,528
Restricted cash (Note 3)	159,053	9,074	168,127	77,777
Certificates of deposit	31,014	0	31,014	59,719
Accounts receivable	5,556	13,217	18,773	23,837
Allowance for doubtful accounts	0	(913)	(913)	(5,983)
Prepaid insurance	8,344	0	8,344	0
Internal balances	14,765	(14,765)	0	0
Total current assets	244,980	50,800	295,780	218,878
Capital Assets				
Depreciable property and equipment	240,984	725,032	966,016	883,293
Accumulated depreciation	(121,853)	(233,908)	(355,761)	(317,314)
Net depreciable assets	119,131	491,124	610,255	565,979
Land	0	6,949	6,949	6,949
Total capital assets	119,131	498,073	617,204	572,928
TOTAL ASSETS	364,111	548,873	912,984	791,806
LIABILITIES				
Current Liabilities				
Payroll taxes payable	0	318	318	0
Total current liabilities	0	318	318	0
Noncurrent Liabilities				
Meter deposits refundable	0	9,074	9,074	7,618
TOTAL LIABILITIES	0	9,392	9,392	7,618
NET POSITION				
Net investment in capital assets	119,131	498,073	617,204	572,928
Restricted for:				
Streets	10,010	0	10,010	7,161
Fire department	180,430	0	180,430	94,366
Unrestricted	54,540	41,408	95,948	109,733
TOTAL NET POSITION	\$364,111	\$539,481	\$903,592	\$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, 2012

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 2012	(Memo Only) 2011
Governmental activities:								
General government	(\$23,663)	\$5,153	\$0	\$43,800	\$25,290	\$0	\$25,290	(\$21,151)
Police department	(28,002)	8,187	0	0	(19,815)	0	(19,815)	(24,402)
Street department	(8,381)	0	3,812	0	(4,569)	0	(4,569)	(6,305)
Fire department	(47,612)	0	121,385	0	73,773	0	73,773	10,423
Total governmental activities	(107,658)	13,340	125,197	43,800	74,679	0	74,679	(41,435)
Business-type activities:								
Sewer department	(28,065)	41,729	0	0	0	13,664	13,664	7,555
Trash department	(47,596)	36,961	0	0	0	(10,635)	(10,635)	(21,995)
Water department	(121,912)	97,204	0	0	0	(24,708)	(24,708)	(4,610)
Total business-type activities	(197,573)	175,894	0	0	0	(21,679)	(21,679)	(19,050)
Total all activities	(305,231)	189,234	125,197	43,800	74,679	(21,679)	53,000	(60,485)
General revenues:								
Taxes:								
Sales and use taxes levied for general purposes					36,665	0	36,665	31,377
Sales and use taxes levied for police, streets, and fire					5,644	0	5,644	4,827
Franchise and public service taxes					14,012	0	14,012	13,571
Other general revenues					1,563	8,001	9,564	11,393
Investment income					465	54	519	821
Interfund transfers					(72,944)	72,944	0	0
Total general revenues and transfers					(14,595)	80,999	66,404	61,989
Change in net position					60,084	59,320	119,404	1,504
Beginning net position					304,027	480,161	784,188	782,684
Ending net position					\$364,111	\$539,481	\$903,592	\$784,188

The accompanying notes are an integral part of these financial statements

**THE TOWN OF DRUMMOND
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012**

	General Fund	Street and Alley Fund	Fire Department Fund	Total Governmental Funds	(Memo Only) Total 2011
ASSETS					
Demand deposits	7,990	9,627	8,631	26,248	23,062
County sales tax funds	0	0	159,053	159,053	70,159
Certificates of deposit	31,014	0	0	31,014	59,719
Revenue receivable	4,467	580	509	5,556	5,350
Prepaid insurance	8,344	0	0	8,344	0
Due from other funds	2,725	0	12,237	14,962	24,302
TOTAL ASSETS	54,540	10,207	180,430	245,177	182,592
LIABILITIES					
Due to other funds	0	197	0	197	10,319
TOTAL LIABILITIES	0	197	0	197	10,319
FUND BALANCE					
Restricted for:					
Steets	0	10,010	0	10,010	7,161
Fire department	0	0	180,430	180,430	94,366
Unassigned	54,540	0	0	54,540	70,746
TOTAL FUND BALANCE	54,540	10,010	180,430	244,980	172,273
TOTAL LIABILITIES AND FUND BALANCE	54,540	10,207	180,430	245,177	182,592
Reconciliation of fund balances to net assets of governmental activities:					
Fund balance	54,540	10,010	180,430	244,980	172,273
Buildings	78,613	0	0	78,613	78,613
Equipment & vehicles - GG	27,649	2,870	84,560	115,079	115,079
Equipment & vehicles - PD	10,023	0	0	10,023	10,023
Infrastructure	0	37,269	0	37,269	37,269
Accumulated depreciation	(67,063)	(5,477)	(49,313)	(121,853)	(109,230)
Net Assets	103,762	44,672	215,677	364,111	304,027

The accompanying notes are an integral part of these financial statements

**THE TOWN OF DRUMMOND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	General Fund	Street and Alley Fund	Fire Department Fund	Total Governmental Funds	(Memo Only) Total 2011
REVENUES					
Sales and use taxes - unrestricted	25,385	5,640	5,640	36,665	31,377
Sales and use taxes - restricted	5,644	0	0	5,644	4,827
Franchise taxes	14,012	0	0	14,012	13,571
Shared taxes	1,404	3,812	89,145	94,361	72,611
Rents and royalties	5,153	0	0	5,153	3,495
Police fines	8,187	0	0	8,187	2,407
Other revenues	160	0	0	160	246
Interest	465	0	0	465	769
Donations & fund raisers	0	0	2,755	2,755	2,683
Grants	43,800	0	29,484	73,284	21,849
TOTAL REVENUES	104,210	9,452	127,024	240,686	153,835
EXPENDITURES					
General government	19,778	0	0	19,778	20,113
Police department	27,694	0	0	27,694	26,501
Street department	0	6,603	0	6,603	25,764
Fire department	0	0	40,960	40,960	59,219
Capital outlay	0	0	0	0	49,732
TOTAL EXPENDITURES	47,472	6,603	40,960	95,035	181,329
REVENUES OVER (UNDER) EXPENDITURES	56,738	2,849	86,064	145,651	(27,494)
OTHER FINANCING SOURCES (USES)					
Interfund transfers	(72,944)	0	0	(72,944)	1,200
NET CHANGE IN FUND BALANCES	(16,206)	2,849	86,064	72,707	(26,294)
BEGINNING FUND BALANCE	70,746	7,161	94,366	172,273	198,567
ENDING FUND BALANCE	54,540	10,010	180,430	244,980	172,273
Reconciliation of the change in fund balances to the change in net assets of governmental activities:					
Net change in fund balances	(16,206)	2,849	86,064	72,707	(26,294)
Depreciation expense	(4,192)	(1,778)	(6,653)	(12,623)	(11,485)
Purchase of fixed assets	0	0	0	0	49,732
Change in Net Assets	(20,398)	1,071	79,411	60,084	11,953

The accompanying notes are an integral part of these financial statements

**DRUMMOND PUBLIC WORKS AUTHORITY
STATEMENT OF NET POSITION
DECEMBER 31, 2012**

	<u>Utility Fund</u>
ASSETS	
Current Assets	
Cash in bank	\$44,187
Cash in bank - restricted deposits	9,074
Accounts receivable	13,217
Allowance for uncollectible accounts	<u>(913)</u>
Total current assets	65,565
Capital Assets	
Buildings	16,399
Equipment	69,361
Sewer system	40,457
Water system	598,815
Less accumulated depreciation	<u>(233,908)</u>
Net depreciable capital assets	491,124
Land	<u>6,949</u>
Net capital assets	498,073
TOTAL ASSETS	563,638
LIABILITIES	
Current Liabilities	
Payroll taxes payable	318
Due to other funds	<u>14,765</u>
Total current liabilities	15,083
Long-term Liabilities	
Meter deposits refundable	<u>9,074</u>
TOTAL LIABILITIES	24,157
NET POSITION	
Net investment in capital assets	498,073
Unrestricted	<u>41,408</u>
TOTAL NET POSITION	<u>\$539,481</u>

The accompanying notes are an integral part of these financial statements

**DRUMMOND PUBLIC WORKS AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Utility Fund</u>
OPERATING REVENUES	
Sewer revenues	\$41,729
Trash revenues	36,961
Water revenues	97,204
Late payment penalties	6,679
Other revenues	<u>1,322</u>
TOTAL OPERATING REVENUES	183,895
 OPERATING EXPENSES	
Sewer department	28,065
Trash department	47,596
Water department	<u>121,912</u>
TOTAL OPERATING EXPENSES	197,573
 OPERATING LOSS	(13,678)
 NONOPERATING REVENUES	
Interest income	<u>54</u>
 NET LOSS BEFORE TRANSFERS	(13,624)
 TRANSFERS TO TOWN	<u>72,944</u>
 NET INCOME	59,320
 BEGINNING NET POSITION	<u>480,161</u>
ENDING NET POSITION	<u>\$539,481</u>

The accompanying notes are an integral part of these financial statements

**DRUMMOND PUBLIC WORKS AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Utility Fund</u>
Cash flows from operating activities:	
Cash received from customers	\$180,196
Cash payments for goods and services	(127,739)
Cash payments to employees	<u>(39,010)</u>
Net cash from operating activities	13,447
Cash flows from capital financing activities:	
Purchase of capital assets	(82,724)
Interfund transfers	<u>72,944</u>
Net cash from capital financing activities	(9,780)
Cash flows from investing activities:	
Interest receipts	<u>54</u>
Net cash from investing activities	54
Net increase (decrease) in cash	3,721
Beginning cash	<u>40,466</u>
Ending cash	<u>\$44,187</u>
Reconciliation of operating income to net cash provided by operations:	
Operating income	(13,678)
Adjustments to reconcile operating income to net cash from operations:	
Depreciation	25,824
Bad debts	2,969
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	(2,768)
Increase (decrease) in accounts payable	318
Increase (decrease) in interfund payables	<u>782</u>
Net cash provided by operations	<u>\$13,447</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, 2012**

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. The Town changed its fiscal year end from June 30 to December 31 beginning with 2010.

For the fiscal year ended December 31, 2012, the City implemented the new financial reporting requirements of the following GASB statements:

GASB 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance included in other pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. This statement also supersedes Statement No. 20, relating to proprietary fund accounting, eliminating the election for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements.

GASB 63 provides financial reporting guidance for deferred outflows and inflows of resources and identifies net position as the residual of all other elements presented in the statement of financial position. This Statement amends the net asset reporting requirements of other pronouncements by incorporating deferred outflows and inflows into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

GASB 65 reclassifies certain items currently being reported as assets and liabilities as deferred outflows and inflows of resources; and recognizes certain items currently being reported as assets and liabilities as outflows and inflows of resources.

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.

**The Town of Drummond
Notes to the Basic Financial Statements
As of and for the Year Ended December 31, 2012**

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 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 Town of Drummond
Notes to the Basic Financial Statements
As of and for the Year Ended December 31, 2012**

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.

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.

**The Town of Drummond
Notes to the Basic Financial Statements
As of and for the Year Ended December 31, 2012**

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 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.

**The Town of Drummond
Notes to the Basic Financial Statements
As of and for the Year Ended December 31, 2012**

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.

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 - \$159,053; intergovernmental revenues - \$114,146; expenditures: \$25,251.

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.

The Town of Drummond
Notes to the Basic Financial Statements
As of and for the Year Ended December 31, 2012

Depreciation expense was charged to functions as follows:

Governmental activities		Business-type activities	
General government	3,884		
Police department	308	Administration	410
Street department	1,778	Sewer department	2,742
Fire department	6,653	Water department	22,672
	<u>12,623</u>		<u>25,824</u>

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

Governmental Activities	Beginning			Beginning				Ending	
	Balance	Added	Disposed	Balance	Accum Deprec	Added	Disposed	Accum Deprec	Book Value
Buildings	78,613	0	0	78,613	25,969	3,884	0	29,853	48,760
Vehicles and equipment	125,102	0	0	125,102	80,279	7,248	0	87,527	37,575
Infrastructure	37,269	0	0	37,269	2,982	1,491	0	4,473	32,796
Total capital assets	<u>240,984</u>	<u>0</u>	<u>0</u>	<u>240,984</u>	<u>109,230</u>	<u>12,623</u>	<u>0</u>	<u>121,853</u>	<u>119,131</u>

Business-type Activities	Beginning			Beginning				Ending	
	Balance	Added	Disposed	Balance	Accum Deprec	Added	Disposed	Accum Deprec	Book Value
Buildings	16,399	0	0	16,399	5,989	410	0	6,399	10,000
Equipment	69,361	0	0	69,361	28,728	4,297	0	33,025	36,336
Water system	516,091	82,724	0	598,815	149,808	20,524	0	170,332	428,483
Sewer system	40,457	0	0	40,457	23,558	593	0	24,151	16,306
Depreciable assets	<u>642,308</u>	<u>82,724</u>	<u>0</u>	<u>725,032</u>	<u>208,083</u>	<u>25,824</u>	<u>0</u>	<u>233,907</u>	<u>491,125</u>
Land	6,949	0	0	6,949	0	0	0	0	6,949
Total capital assets	<u>649,257</u>	<u>82,724</u>	<u>0</u>	<u>731,981</u>	<u>208,083</u>	<u>25,824</u>	<u>0</u>	<u>233,907</u>	<u>498,074</u>

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.

**The Town of Drummond
Notes to the Basic Financial Statements
As of and for the Year Ended December 31, 2012**

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, 2012, 2011, and 2010 was \$900, \$840, and \$960 respectively, equal to the required contribution for each year.

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	(72,944)	0	0	72,944	0

Interfund Loans	General Fund	Street Fund	Fire Fund	Utility Fund	Total
Operating expenditures	2,725	(197)	12,237	(14,765)	0

9. Subsequent Events

Management performed an evaluation of the Town's activity through August 8, 2013, 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 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, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Drummond, Oklahoma, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the basic financial statements of the Town of Drummond, and have issued our report thereon, dated August 8, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Drummond's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Town of Drummond's internal control.

Our consideration of internal control 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 that we consider to be material weaknesses and other deficiencies that we consider to be material weaknesses and 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:

2012-1 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.

2012-2 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:

2012-3 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.

2012-4 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 from 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*.

Town of Drummond's Response to Findings

The Town of Drummond's response to the findings identified in our audit is described above. The Town of Drummond's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

This purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



C.P.A., Inc.

Becky Fleming, C.P.A., Inc.
August 8, 2013