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**THE TOWN OF KREMLIN**

**(Including the Kremlin Public Works Authority)**

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**FINANCIAL STATEMENTS**

**AS OF AND FOR THE YEAR ENDED JUNE 30, 2012**

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## TABLE OF CONTENTS

<b>INDEPENDENT AUDITOR'S REPORT.....</b>	<b>1</b>
<b>GOVERNMENT-WIDE FINANCIAL STATEMENTS</b>	
STATEMENT OF NET ASSETS .....	3
STATEMENT OF ACTIVITIES .....	4
<b>FUND FINANCIAL STATEMENTS</b>	
BALANCE SHEET - GOVERNMENTAL FUND .....	5
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUND .....	6
STATEMENT OF NET ASSETS - PROPRIETARY FUND .....	7
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - PROPRIETARY FUND .....	8
STATEMENT OF CASH FLOWS - PROPRIETARY FUND .....	9
<b>NOTES TO THE BASIC FINANCIAL STATEMENTS.....</b>	<b>10</b>
<b>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 GOVERNMENTAUDITING STANDARDS.....</b>	<b>18</b>

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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, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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, 2012, 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 July 19, 2013, 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.  
July 19, 2013

**TOWN OF KREMLIN  
STATEMENT OF NET ASSETS  
AS OF JUNE 30, 2012**

	(Memo Only)			
	Governmental Activities	Business-Type Activities	Totals 2012	Totals 2011
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash in bank	54,147	63,160	117,307	144,064
Certificates of deposit	60,072	30,109	90,181	89,367
Restricted cash	100,149	23,015	123,164	138,561
Accounts receivable	14,908	17,311	32,219	26,420
Allowance for doubtful accounts	0	(4,988)	(4,988)	(3,025)
Internal balances	(527)	527	0	0
Total current assets	<u>228,749</u>	<u>129,134</u>	<u>357,883</u>	<u>395,387</u>
<b>Noncurrent Assets</b>				
Property and equipment	572,117	1,358,759	1,930,876	1,830,341
Accumulated depreciation	(255,519)	(477,534)	(733,053)	(648,143)
Total noncurrent assets	<u>316,598</u>	<u>881,225</u>	<u>1,197,823</u>	<u>1,182,198</u>
<b>TOTAL ASSETS</b>	<u>545,347</u>	<u>1,010,359</u>	<u>1,555,706</u>	<u>1,577,585</u>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Accounts payable	1,139	8,187	9,326	12,412
Accrued payroll liabilities	40	323	363	350
Deferred grant revenues	30	0	30	0
Accrued interest payable	0	175	175	206
Current portion of long-term debt	0	6,600	6,600	6,050
Total current liabilities	<u>1,209</u>	<u>15,285</u>	<u>16,494</u>	<u>19,018</u>
<b>Noncurrent liabilities</b>				
Meter deposits refundable	0	5,045	5,045	4,695
Long-term debt, less current portion	0	107,500	107,500	114,100
Total noncurrent liabilities	<u>0</u>	<u>112,545</u>	<u>112,545</u>	<u>118,795</u>
<b>TOTAL LIABILITIES</b>	<u>1,209</u>	<u>127,830</u>	<u>129,039</u>	<u>137,813</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of debt	316,598	767,125	1,083,723	1,062,048
Restricted for:				
Fire department	100,149	0	100,149	115,850
Debt service	0	16,190	16,190	16,368
Unrestricted	127,391	99,214	226,605	245,506
<b>TOTAL NET ASSETS</b>	<u>544,138</u>	<u>882,529</u>	<u>1,426,667</u>	<u>1,439,772</u>

The accompanying notes are an integral part of these financial statements

**TOWN OF KREMLIN  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2012**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Assets			(Memo Only)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total Activities	Totals 2011
Governmental activities:								
General government	(56,638)	25	11,500	0	(45,113)	0	(45,113)	(52,292)
Community building	(7,859)	1,300	0	0	(6,559)	0	(6,559)	(6,024)
Fire department	(61,172)	0	79,337	4,500	22,665	0	22,665	20,614
Street and alley department	(32,889)	0	19,712	0	(13,177)	0	(13,177)	(3,015)
Total governmental activities	(158,558)	1,325	110,549	4,500	(42,184)	0	(42,184)	(40,717)
Business-type activities:								
Sewer department*	(64,971)	21,791	0	0	0	(43,180)	(43,180)	(45,448)
Trash department	(24,510)	22,384	0	0	0	(2,126)	(2,126)	(1,731)
Water department	(79,432)	79,588	0	0	0	156	156	19,421
Total business-type activities	(168,913)	123,763	0	0	0	(45,150)	(45,150)	(27,758)
Total all activities	(327,471)	125,088	110,549	4,500	(42,184)	(45,150)	(87,334)	(68,475)
General revenues:								
Sales and use taxes					60,062	0	60,062	50,238
Franchise taxes					8,856	0	8,856	12,475
Intergovernmental					818	0	818	792
Interest income					653	307	960	1,306
Sale of fixed assets					0	0	0	21,333
Miscellaneous					15	3,518	3,533	3,320
Transfers					(11,500)	11,500	0	0
Total general revenues					58,904	15,325	74,229	89,464
Change in net assets					16,720	(29,825)	(13,105)	20,989
Beginning net assets					527,418	912,354	1,439,772	1,474,603
Prior period adjustment					0	0	0	(55,820)
Ending net assets					544,138	882,529	1,426,667	1,439,772

\* Includes \$1,550 interest

The accompanying notes are an integral part of these financial statements

**TOWN OF KREMLIN  
BALANCE SHEET  
GOVERNMENTAL FUND  
AS OF JUNE 30, 2012**

	<u>GENERAL FUND</u>
<b>ASSETS</b>	
Cash in bank	54,147
Certificates of deposit	60,072
Restricted cash	100,149
Accounts receivable	14,908
<b>TOTAL ASSETS</b>	<u>229,276</u>
 <b>LIABILITIES</b>	
Accounts payable	1,139
Accrued payroll liabilities	40
Deferred grant revenues	30
Due to other funds	527
<b>TOTAL LIABILITIES</b>	<u>1,736</u>
 <b>FUND BALANCE</b>	
Restricted:	
Fire department	100,149
Unrestricted:	
Unassigned	127,391
<b>TOTAL FUND BALANCE</b>	<u>227,540</u>
<b>TOTAL LIABILITIES</b>	<u>229,276</u>
<b>AND FUND BALANCE</b>	
 Reconciliation of fund balance to net assets of governmental activities:	
Fund balance	227,540
Capital assets	572,117
Accumulated depreciation	<u>(255,519)</u>
<b>Net assets of governmental activities</b>	<u>544,138</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, 2012**

	<u>GENERAL FUND</u>
REVENUES	
Sales and use taxes	60,062
Franchise tax	8,856
Shared taxes - fire department	74,924
Shared taxes - street & alley	2,217
Shared taxes - general government	818
Other revenues	4,515
Rentals of town property	1,325
Interest income	653
Grants	<u>33,408</u>
TOTAL REVENUES	186,778
EXPENDITURES	
General government	48,348
Community building	3,421
Fire department	37,819
Street and alley department	32,825
Capital outlay	<u>89,035</u>
TOTAL EXPENDITURES	211,448
REVENUES OVER (UNDER) EXPENDITURES	(24,670)
OTHER FINANCING SOURCES (USES)	
Transfers-in (out)	<u>(11,500)</u>
TOTAL OTHER FINANCING SOURCES (USES)	(11,500)
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(36,170)
BEGINNING FUND BALANCE	<u>263,710</u>
ENDING FUND BALANCE	<u><u>227,540</u></u>
Reconciliation of net change in fund balance to change in net assets of governmental activities:	
Net change in fund balances	(36,170)
Capital asset purchases capitalized	89,035
Depreciation expense	<u>(36,145)</u>
Change in Net Assets of Governmental Activities	<u><u>16,720</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, 2012**

	<u>ENTERPRISE FUND</u>
<b>ASSETS</b>	
Current Assets	
Cash in bank	63,160
Certificates of deposit	30,109
Restricted cash	23,015
Accounts receivable	17,311
Allowance for doubtful accounts	(4,988)
Due from other funds	527
Total Current Assets	<u>129,134</u>
Noncurrent Assets	
Depreciable property and equipment	1,358,759
Accumulated depreciation	(477,534)
Total Property, Plant, and Equipment	<u>881,225</u>
<b>TOTAL ASSETS</b>	<u><u>1,010,359</u></u>
<b>LIABILITIES</b>	
Current Liabilities	
Accounts payable	8,187
Accrued payroll liabilities	323
Accrued interest payable	175
Current portion of long-term debt	6,600
Total Current Liabilities	<u>15,285</u>
Noncurrent Liabilities	
Meter deposits refundable	5,045
Long-term debt, less current portion	107,500
Total Noncurrent Liabilities	<u>112,545</u>
<b>TOTAL LIABILITIES</b>	<u>127,830</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of debt	767,125
Restricted for debt service	16,190
Unrestricted	99,214
<b>TOTAL NET ASSETS</b>	<u><u>882,529</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, 2012**

	<u>UTILITY FUND</u>
OPERATING REVENUES	
Sewer revenue	21,791
Trash revenue	22,384
Water revenue	79,588
Other revenues	<u>3,518</u>
TOTAL OPERATING REVENUES	127,281
OPERATING EXPENSES	
Administration department	19,024
Sewer department	56,330
Trash department	18,169
Water department	<u>73,090</u>
TOTAL OPERATING EXPENSES	166,613
OPERATING INCOME (LOSS)	(39,332)
NON-OPERATING REVENUES (EXPENSES)	
Interest income	307
Interest expense	(1,550)
Trustee fees	<u>(750)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	(1,993)
INCOME (LOSS) BEFORE TRANSFERS	(41,325)
Interfund transfers	<u>11,500</u>
CHANGE IN NET ASSETS	(29,825)
BEGINNING NET ASSETS	<u>912,354</u>
ENDING NET ASSETS	<u><u>882,529</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, 2012**

	<u>UTILITY FUND</u>
Cash flows from operations:	
Cash received from:	
Customers	123,844
Cash payments for:	
Goods and services	(97,211)
Employees	<u>(16,522)</u>
Net cash provided from operations	10,111
Cash flows from capital financing activities:	
Interest received	76
Transfers to trust accounts	(7,451)
Trustee fees	(750)
Grant transfers	11,530
Capital assets	<u>(11,500)</u>
Net cash from capital financing activities	<u>(8,095)</u>
 Net increase (decrease) in cash	 2,016
 Beginning cash	 <u>61,144</u>
Ending cash	<u>63,160</u>
 Reconciliation of income from operations to net cash from operations:	
Operating income (loss)	(39,332)
Adjustments to income from operations:	
Depreciation	48,764
Bad debts	1,802
Change in assets and liabilities:	
(Increase) decrease in receivables	(3,787)
Increase (decrease) in payables	<u>2,634</u>
Net cash provided by operations	<u>10,111</u>
 Supplemental information:	
Trust accounts, beginning balance	16,368
Transfers from Town of Kremlin	7,451
Interest income	2
Principal	(6,050)
Interest payments	<u>(1,581)</u>
Trust accounts, ending balance	<u>16,190</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, 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. 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 established new fund balance classifications for governmental funds. Fund balance is now 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, 2012**

**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, 2012**

**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, 2012**

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, 2011, 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, 2012**

**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 did not comply 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 Garfield 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 \$97,852 and \$2,297 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 \$16,190 and \$6,825 respectively.

**5. Capital Assets**

Depreciation expense was charged to functions as follows:

**Governmental activities**

General government	8,290
Community building	4,437
Fire department	23,353
Street & alley department	65
Total depreciation	<u>36,145</u>

**Business-type activities**

Administration department	442
Sewer department	38,244
Water department	10,078
Total depreciation	<u>48,764</u>



**The Town of Kremlin**  
**Notes to the Basic Financial Statements**  
**As of and for the Year Ended June 30, 2012**

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

	Beginning			Ending
	Balance	Additions	Deletions	Balance
<b>Governmental activities</b>				
Depreciable assets				
Buildings	195,170	0	0	195,170
Equipment	287,913	89,035	0	376,948
Total depreciable assets	483,083	89,035	0	572,118
Depreciation				
Buildings	83,311	7,904	0	91,215
Equipment	136,064	28,241	0	164,305
Total depreciation	219,375	36,145	0	255,520
Net depreciable assets	263,708	52,890	0	316,598
<b>Business-type activities</b>				
Depreciable assets				
Buildings	7,855	0	0	7,855
Equipment	13,052	0	0	13,052
Utility systems	1,326,352	11,500	0	1,337,852
Total depreciable assets	1,347,259	11,500	0	1,358,759
Depreciation				
Buildings	3,119	367	0	3,486
Equipment	12,977	75	0	13,052
Utility systems	412,674	48,322	0	460,996
Total depreciation	428,770	48,764	0	477,534
Net depreciable assets	918,489	(37,264)	0	881,225
Net business-type assets	918,489	(37,264)	0	881,225

**6. Long-term Debt**

Long-term debt activity for the year ended June 30, 2012, was as follows:

	Beginning			Ending	Due in
	Balance	Issued	Retired	Balance	One Year
<b>Business-type Activities</b>					
Note payable - sewer system	120,150	0	(6,050)	114,100	6,600

**The Town of Kremlin  
Notes to the Basic Financial Statements  
As of and for the Year Ended June 30, 2012**

Outstanding debt at June 30, 2012 consisted of the following:

<b>Business-type</b>	<b>Interest Rates</b>	<b>Rates Change</b>	<b>Original Balance</b>	<b>Year End Balance</b>	<b>Collateral</b>
Sewer system	Variable	Quarterly	175,000	114,100	Utility revenues and mortgage
	1.370%	6/1/2011			
	1.380%	9/1/2011			
	1.380%	12/1/2011			
	1.230%	3/1/2012			
	1.230%	6/1/2012			

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:

	<b>Business-type Activities</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
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	9,000	1,060	10,060
2018-2022	57,300	3,224	60,524
2023-2024	18,150	155	18,305
	<u>114,100</u>	<u>10,776</u>	<u>124,876</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**  
**Notes to the Basic Financial Statements**  
**As of and for the Year Ended June 30, 2012**

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, 2012, 2011 and 2010 was \$780, \$840 and \$780 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 July 19, 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.

**11. Interfund Transfers**

Inter-fund transfers of \$11,500 consisted of grant funds for water system improvements.

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

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**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, 2012, which collectively comprise the basic financial statements of the Town of Kremlin, and have issued our report thereon, dated July 19, 2013. 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, 2012**

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 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 did not disclose any instances of

**The Town of Kremlin  
Notes to the Basic Financial Statements  
As of and for the Year Ended June 30, 2012**

noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.



, C.P.A., Inc.

Becky Fleming, C.P.A., Inc.  
July 19, 2013