
THE TOWN OF KREMLIN

(Including the Kremlin Public Works Authority)

FINANCIAL STATEMENTS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
The Town of Kremlin, 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 Kremlin, Oklahoma, as of and for the year ended June 30, 2013, 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 Kremlin, Oklahoma, as of June 30, 2013, 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

Required Supplementary Information

Management has omitted the management's discussion and analysis and 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 14, 2014, 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* in considering the Town of Kremlin's internal control over financial reporting and compliance.



C.P.A., Inc.

Becky Fleming, C.P.A., Inc.
April 14, 2014

**TOWN OF KREMLIN
STATEMENT OF NET POSITION
AS OF JUNE 30, 2013**

	(Memo Only)			
	Governmental Activities	Business-Type Activities	Totals 2013	Totals 2012
ASSETS				
Current Assets				
Cash in bank	91,226	71,099	162,325	117,307
Certificates of deposit	60,363	30,237	90,600	90,181
Restricted cash	162,890	23,770	186,660	123,164
Accounts receivable	14,763	16,598	31,361	32,219
Allowance for doubtful accounts	0	(4,948)	(4,948)	(4,988)
Internal balances	(527)	527	0	0
Total current assets	328,715	137,283	465,998	357,883
Noncurrent Assets				
Property and equipment	576,712	1,387,925	1,964,637	1,930,876
Accumulated depreciation	(294,094)	(526,409)	(820,503)	(733,053)
Total noncurrent assets	282,618	861,516	1,144,134	1,197,823
TOTAL ASSETS	611,333	998,799	1,610,132	1,555,706
LIABILITIES				
Current Liabilities				
Accounts payable	5,256	5,933	11,189	9,326
Accrued payroll liabilities	2,119	2,704	4,823	363
Deferred grant revenues	0	0	0	30
Accrued interest payable	0	210	210	175
Current portion of long-term debt	0	7,050	7,050	6,600
Total current liabilities	7,375	15,897	23,272	16,494
Noncurrent liabilities				
Meter deposits refundable	0	4,945	4,945	5,045
Long-term debt, less current portion	0	100,450	100,450	107,500
Total noncurrent liabilities	0	105,395	105,395	112,545
TOTAL LIABILITIES	7,375	121,292	128,667	129,039
NET POSITION				
Net investment in capital assets	282,618	754,016	1,036,634	1,083,723
Restricted for:				
Fire department	162,890	0	162,890	100,149
Debt service	0	16,242	16,242	16,190
Unrestricted	158,450	107,249	265,699	226,605
TOTAL NET POSITION	603,958	877,507	1,481,465	1,426,667

The accompanying notes are an integral part of these financial statements

**TOWN OF KREMLIN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Position			(Memo Only)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total Activities	Totals 2012
Governmental activities:								
General government	(57,266)	0	450	29,166	(27,650)	0	(27,650)	(45,113)
Community building	(6,150)	875	0	0	(5,275)	0	(5,275)	(6,559)
Fire department	(53,977)	0	94,484	0	40,507	0	40,507	22,665
Street and alley department	(7,413)	0	2,275	0	(5,138)	0	(5,138)	(13,177)
Total governmental activities	(124,806)	875	97,209	29,166	2,444	0	2,444	(42,184)
Business-type activities:								
Sewer department*	(60,294)	21,962	0	0	0	(38,332)	(38,332)	(43,180)
Trash department	(18,309)	22,976	0	0	0	4,667	4,667	(2,126)
Water department	(81,088)	77,796	0	0	0	(3,292)	(3,292)	156
Total business-type activities	(159,691)	122,734	0	0	0	(36,957)	(36,957)	(45,150)
Total all activities	(284,497)	123,609	97,209	29,166	2,444	(36,957)	(34,513)	(87,334)
			General revenues:					
			Sales and use taxes		76,902	0	76,902	60,062
			Franchise taxes		8,775	0	8,775	8,856
			Intergovernmental		887	0	887	818
			Interest income		333	171	504	960
			Miscellaneous		1,688	3,576	5,264	3,533
			Transfers		(29,166)	29,166	0	0
			Total general revenues		59,419	32,913	92,332	74,229
			Change in net position		61,863	(4,044)	57,819	(13,105)
			Beginning net position		544,138	882,529	1,426,667	1,439,772
			Prior period adjustment		(2,043)	(978)	(3,021)	0
			Ending net position		603,958	877,507	1,481,465	1,426,667

* Includes \$1,518 interest

The accompanying notes are an integral part of these financial statements

**TOWN OF KREMLIN
BALANCE SHEET
GOVERNMENTAL FUND
AS OF JUNE 30, 2013**

	<u>GENERAL FUND</u>
ASSETS	
Cash in bank	91,226
Certificates of deposit	60,363
Restricted cash	162,890
Accounts receivable	<u>14,763</u>
TOTAL ASSETS	<u><u>329,242</u></u>
 LIABILITIES	
Accounts payable	5,256
Accrued payroll liabilities	2,119
Due to other funds	<u>527</u>
TOTAL LIABILITIES	<u>7,902</u>
 FUND BALANCE	
Restricted:	
Fire department	162,890
Unrestricted:	
Unassigned	<u>158,450</u>
TOTAL FUND BALANCE	<u>321,340</u>
TOTAL LIABILITIES	<u>329,242</u>
AND FUND BALANCE	
 Reconciliation of fund balance to net position of governmental activities:	
Fund balance	321,340
Capital assets	576,712
Accumulated depreciation	<u>(294,094)</u>
Net position of governmental activities	<u><u>603,958</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, 2013**

	<u>GENERAL FUND</u>
REVENUES	
Sales and use taxes	76,902
Franchise tax	8,775
Shared taxes - fire department	89,600
Shared taxes - street & alley	2,275
Shared taxes - general government	887
Other revenues	2,538
Rentals of town property	875
Interest income	333
Grants	<u>33,650</u>
TOTAL REVENUES	215,835
EXPENDITURES	
General government	49,439
Community building	1,712
Fire department	27,667
Street and alley department	7,413
Capital outlay	<u>4,595</u>
TOTAL EXPENDITURES	90,826
REVENUES OVER (UNDER) EXPENDITURES	125,009
OTHER FINANCING SOURCES (USES)	
Transfers-in (out)	<u>(29,166)</u>
TOTAL OTHER FINANCING SOURCES (USES)	(29,166)
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	95,843
BEGINNING FUND BALANCE	227,540
Prior period adjustment	<u>(2,043)</u>
ENDING FUND BALANCE	<u>321,340</u>
Reconciliation of net change in fund balance to change in net position of governmental activities:	
Net change in fund balances	95,843
Capital asset purchases capitalized	4,595
Depreciation expense	<u>(38,575)</u>
Change in Net Position of Governmental Activities	<u>61,863</u>

The accompanying notes are an integral part of these financial statements

**TOWN OF KREMLIN
STATEMENT OF NET POSITION
PROPRIETARY FUND
AS OF JUNE 30, 2013**

	<u>ENTERPRISE FUND</u>
ASSETS	
Current Assets	
Cash in bank	71,099
Certificates of deposit	30,237
Restricted cash	23,770
Accounts receivable	16,598
Allowance for doubtful accounts	(4,948)
Due from other funds	527
Total Current Assets	<u>137,283</u>
Noncurrent Assets	
Depreciable property and equipment	1,387,925
Accumulated depreciation	<u>(526,409)</u>
Total Property, Plant, and Equipment	<u>861,516</u>
TOTAL ASSETS	<u><u>998,799</u></u>
LIABILITIES	
Current Liabilities	
Accounts payable	5,933
Accrued payroll liabilities	2,704
Accrued interest payable	210
Current portion of long-term debt	<u>7,050</u>
Total Current Liabilities	15,897
Noncurrent Liabilities	
Meter deposits refundable	4,945
Long-term debt, less current portion	<u>100,450</u>
Total Noncurrent Liabilities	<u>105,395</u>
TOTAL LIABILITIES	121,292
NET POSITION	
Net investment in capital assets	754,016
Restricted for debt service	16,242
Unrestricted	<u>107,249</u>
TOTAL NET POSITION	<u><u>877,507</u></u>

The accompanying notes are an integral part of these financial statements

**TOWN OF KREMLIN
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>UTILITY FUND</u>
OPERATING REVENUES	
Sewer revenue	21,962
Trash revenue	22,976
Water revenue	77,796
Other revenues	<u>3,576</u>
TOTAL OPERATING REVENUES	126,310
 OPERATING EXPENSES	
Administration department	14,634
Sewer department	50,709
Trash department	18,309
Water department	<u>73,771</u>
TOTAL OPERATING EXPENSES	157,423
 OPERATING INCOME (LOSS)	(31,113)
 NON-OPERATING REVENUES (EXPENSES)	
Interest income	171
Interest expense	(1,518)
Trustee fees	<u>(750)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	(2,097)
 INCOME (LOSS) BEFORE TRANSFERS	(33,210)
Interfund transfers	<u>29,166</u>
CHANGE IN NET POSITION	(4,044)
 BEGINNING NET POSITION	882,529
Prior period adjustment	<u>(978)</u>
ENDING NET POSITION	<u>877,507</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, 2013**

	<u>UTILITY FUND</u>
Cash flows from operations:	
Cash received from:	
Customers	126,923
Cash payments for:	
Goods and services	(91,228)
Employees	<u>(19,041)</u>
Net cash provided from operations	16,654
Cash flows from capital financing activities:	
Interest received	169
Transfers to trust accounts	(8,134)
Trustee fees	(750)
Grant transfers	29,166
Capital asset purchases	<u>(29,166)</u>
Net cash from capital financing activities	<u>(8,715)</u>
Net increase (decrease) in cash	7,939
Beginning cash	<u>63,160</u>
Ending cash	<u><u>71,099</u></u>
Reconciliation of income from operations to net cash from operations:	
Operating income (loss)	(31,113)
Adjustments to income from operations:	
Depreciation	48,875
Bad debts	781
Change in assets and liabilities:	
(Increase) decrease in receivables	(2,016)
Increase (decrease) in payables	127
Net cash provided by operations	<u><u>16,654</u></u>
Supplemental information:	
Trust accounts, beginning balance	16,190
Transfers from Town of Kremlin	8,134
Interest income	2
Principal	(6,600)
Interest payments	<u>(1,484)</u>
Trust accounts, ending balance	<u><u>16,242</u></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, 2013**

1. Summary of Significant Accounting Policies

The Town of Kremlin, Oklahoma, received its charter May 20, 1901, after the Cherokee Strip Opening land run and before Oklahoma became a state. The Town of Kremlin (Town) operates under the Statutory Town Board of Trustees form of government and provides the following major services: general government, community building, fire, and streets. Sewer, trash, and water utilities are provided by the Town's public works authority.

The Town's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the Town are discussed below.

For the fiscal year ended June 30, 2013, the Town 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

These financial statements present the Town (the primary government) and its component unit in conformity with GASB-14. The financial statements of the Town's Title 60 Trust have been included in the financial reporting entity as a blended component unit because their operating and financial relationships are significant to the Town.

**The Town of Kremlin
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2013**

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.

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.

**The Town of Kremlin
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2013**

Proprietary Funds

The measurement focus of proprietary funds is economic resources, the objectives of which involves the determination of operating income, changes in net position, 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.

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 of Kremlin
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2013**

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 \$2,000 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

**The Town of Kremlin
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2013**

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, 2012, from which the summarized information was derived.

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. Deposits and Investments

Town demand deposits and certificates of deposit are fully insured.

Debt service 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.

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.

4. Restricted Cash

Restricted cash in the general fund consists of county sales tax funds maintained by Garfield County and restricted for use by the town's fire department; and restricted fire department donations maintained by the town. County funds are recorded on the Town's books for control and budgeting purposes only. The amounts at June 30 were \$160,449 and \$2,442 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 \$16,242 and \$7,528 respectively.

**The Town of Kremlin
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2013**

5. Capital Assets

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

	Beginning			Ending
	Balance	Additions	Deletions	Balance
Governmental activities				
Depreciable assets				
Buildings	195,170	4,595	0	199,765
Equipment	376,948	0	0	376,948
Total depreciable assets	572,118	4,595	0	576,713
Depreciation				
Buildings	91,215	8,058	0	99,273
Equipment	164,305	30,517	0	194,822
Total depreciation	255,520	38,575	0	294,095
Net depreciable assets	316,598	(33,980)	0	282,618
Business-type activities				
Non-depreciable assets				
Construction in progress	0	29,166	0	29,166
Total non-depreciable assets	0	29,166	0	29,166
Depreciable assets				
Buildings	7,855	0	0	7,855
Equipment	13,052	0	0	13,052
Utility systems	1,337,852	0	0	1,337,852
Total depreciable assets	1,358,759	0	0	1,358,759
Depreciation				
Buildings	3,486	323	0	3,809
Equipment	13,052	0	0	13,052
Utility systems	460,996	48,552	0	509,548
Total depreciation	477,534	48,875	0	526,409
Net depreciable assets	881,225	(48,875)	0	832,350
Net business-type assets	881,225	(19,709)	0	861,516

Depreciation expense was charged to functions as follows:

Governmental activities		Business-type activities	
General government	7,827	Administration department	323
Community building	4,438	Sewer department	38,244
Fire department	26,310	Water department	10,308
Total depreciation	<u>38,575</u>	Total depreciation	<u>48,875</u>

**The Town of Kremlin
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2013**

6. Long-term Debt

Long-term debt activity for the year ended June 30, 2013, was as follows:

Business-type Activities	Beginning Balance	Issued	Retired	Ending Balance	Due in One Year
Note payable - sewer system	114,100	0	(6,600)	107,500	7,050

Outstanding debt at June 30, 2013 consisted of the following:

Business-type	Interest Rates	Rates Change	Original Balance	Year End Balance	Collateral
Sewer system	Variable	Quarterly	175,000	107,500	Utility revenues and mortgage
	1.230%	6/1/2012			
	1.230%	9/1/2012			
	1.180%	12/1/2012			
	1.687%	3/1/2013			
	1.560%	6/1/2013			

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
2014	7,050	1,519	8,569
2015	7,650	1,425	9,075
2016	8,350	1,324	9,674
2017	9,000	1,213	10,213
2018	9,800	1,094	10,894
2019-2023	61,900	3,308	65,208
2024	3,750	152	3,902
	<u>107,500</u>	<u>10,035</u>	<u>117,535</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 Town of Kremlin
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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.

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, 2013, 2012 and 2011 was \$1,500, \$780 and \$840 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. Interfund Transfers

Inter-fund transfers of \$29,166 consisted of grant funds for water system improvements.

11. Subsequent Events

Management performed an evaluation of the Town's activity through April 14, 2014, 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.

12. Prior Period Adjustments

Prior period adjustments consisted of correcting June payrolls paid in July.

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 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, 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, 2013, and the related notes to the financial statements, which collectively comprise the basic financial statements of the Town of Kremlin, and have issued our report thereon, dated April 14, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the internal control over financial reporting of the Town of Kremlin 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 Kremlin's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Kremlin'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 that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control 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:

**The Town of Kremlin
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2013**

2013-1 - 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.

2013-2 - 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.

2013-3 The general fund budget is not being prepared according to state statutes. We recommend that the board and clerk/treasurer review state statutes pertaining to the preparation and submission of annual budgets and establish procedures for the preparation and submission of budgets in accordance with state statutes.

Response We will review state statutes pertaining to budgets and establish policies and procedures to make sure budgets are prepared and submitted correctly.

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 to be significant deficiencies:

2013-4 - 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 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 the following 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, 2013**

2013-3 The general fund budget is not being prepared according to state statutes. We recommend that the board and clerk/treasurer review state statutes pertaining to the preparation and submission of annual budgets and establish procedures for the preparation and submission of budgets in accordance with state statutes.

Response We will review state statutes pertaining to budgets and establish policies and procedures to make sure budgets are prepared and submitted correctly.

The Town of Kremlin's Response to Findings

The Town of Kremlin's response to the findings identified in our audit is described above. The Town of Kremlin'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

The 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.
April 14, 2014