
THE TOWN OF KREMLIN

(Including the Kremlin Public Works Authority)

FINANCIAL STATEMENTS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

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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, 2014, 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, 2014, 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 July 8, 2015, 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.



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

Becky Fleming, C.P.A., Inc.
July 8, 2015

**TOWN OF KREMLIN
STATEMENT OF NET POSITION
AS OF JUNE 30, 2014**

	Governmental Activities	Business-Type Activities	Totals 2014
ASSETS			
Current Assets			
Cash in bank	128,824	78,900	207,724
Certificates of deposit	60,604	30,358	90,962
Restricted cash	85,264	24,492	109,756
Accounts receivable	16,326	12,881	29,207
Allowance for doubtful accounts	0	(4,975)	(4,975)
Grants receivable	6,450	0	6,450
Internal balances	(6,977)	6,977	0
Total current assets	290,491	148,633	439,124
Noncurrent Assets			
Depreciable capital assets	733,668	1,358,759	2,092,427
Accumulated depreciation	(331,742)	(575,078)	(906,820)
Construction in progress	0	38,266	38,266
Total noncurrent assets	401,926	821,947	1,223,873
TOTAL ASSETS	692,417	970,580	1,662,997
LIABILITIES			
Current Liabilities			
Accounts payable	2,510	7,939	10,449
Construction accounts payable	0	6,450	6,450
Accrued payroll liabilities	2,388	3,699	6,087
Accrued interest payable	0	190	190
Current portion of long-term debt	0	7,650	7,650
Total current liabilities	4,898	25,928	30,826
Noncurrent liabilities			
Meter deposits refundable	0	5,545	5,545
Long-term debt, less current portion	0	92,800	92,800
Total noncurrent liabilities	0	98,345	98,345
TOTAL LIABILITIES	4,898	124,273	129,171
NET POSITION			
Net investment in capital assets	401,926	683,231	1,085,157
Restricted for:			
Fire department	85,264	0	85,264
Debt service	0	16,281	16,281
Unrestricted	200,329	146,795	347,124
TOTAL NET POSITION	687,519	846,307	1,533,826

The accompanying notes are an integral part of these financial statements

**TOWN OF KREMLIN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

Net (Expense) Revenues and Changes in Net Position	Program Revenues				Functions/Programs			
	Business-type Activities	Governmental Activities	Grants and Contributions	Operating Grants and Contributions	Charges for Services	Expenses	General government	Governmental activities:
Total							(61,663)	General government building
			9,100	0	1,775	(7,646)	(61,663)	Community building
			0	0	0	1,775	(7,646)	General government building
			0	0	0	0	(53,565)	Fire department
			0	0	0	0	(53,565)	Street and alley department
			9,100	106,689	1,775	(132,605)	(132,605)	Total governmental activities
			0	0	0	0	0	Business-type activities:
			0	0	0	0	(58,787)	Sewer department*
			0	0	0	21,654	(58,787)	Trash department
			0	0	0	24,172	(27,568)	Water department
			0	0	0	75,383	(78,474)	Total business-type activities
			9,100	106,689	122,984	(297,434)	(297,434)	Total all activities

* Includes \$1,604 interest

General revenues:
Sales and use taxes 96,513
Franchise taxes 8,953
Intergovernmental 915
Interest income 299
Miscellaneous 1,022
Transfers (9,100)

96,513	0	687,519
8,953	0	603,958
915	0	83,561
299	167	877,507
1,022	3,153	846,307
(9,100)	9,100	1,533,826
98,602	12,420	1,481,465
111,022	111,022	52,361
		(31,200)
		877,507
		846,307

The accompanying notes are an integral part of these financial statements

**TOWN OF KREMLIN
BALANCE SHEET
GOVERNMENTAL FUND
AS OF JUNE 30, 2014**

	<u>GENERAL FUND</u>
ASSETS	
Cash in bank	128,824
Certificates of deposit	60,604
Restricted cash	85,264
Accounts receivable	16,326
Grants receivable	6,450
TOTAL ASSETS	<u><u>297,468</u></u>
 LIABILITIES	
Accounts payable	2,510
Accrued payroll liabilities	2,388
Due to other funds	6,977
TOTAL LIABILITIES	<u>11,875</u>
 FUND BALANCE	
Restricted:	
Fire department	85,264
Unrestricted:	
Unassigned	200,329
TOTAL FUND BALANCE	<u>285,593</u>
TOTAL LIABILITIES	<u>11,875</u>
AND FUND BALANCE	
 Reconciliation of fund balance to net position of governmental activities:	
Fund balance	285,593
Capital assets	733,668
Accumulated depreciation	(331,742)
Net position of governmental activities	<u><u>687,519</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, 2014**

	<u>GENERAL FUND</u>
REVENUES	
Sales and use taxes	96,513
Franchise tax	8,953
Shared taxes - fire department	99,764
Shared taxes - street & alley	2,451
Shared taxes - general government	915
Other revenues	1,022
Rentals of town property	1,775
Interest income	299
Grants	13,574
TOTAL REVENUES	<u>225,266</u>
EXPENDITURES	
General government	56,261
Community building	3,208
Fire department	25,757
Street and alley department	9,731
Capital outlay	156,956
TOTAL EXPENDITURES	<u>251,913</u>
REVENUES (UNDER) EXPENDITURES	(26,647)
OTHER FINANCING (USES)	
Transfers-in (out)	<u>(9,100)</u>
TOTAL OTHER FINANCING SOURCES (USES)	(9,100)
REVENUES AND OTHER SOURCES (UNDER) EXPENDITURES AND OTHER USES	(35,747)
BEGINNING FUND BALANCE	<u>321,340</u>
ENDING FUND BALANCE	<u><u>285,593</u></u>
Reconciliation of net change in fund balance to change in net position of governmental activities:	
Net change in fund balances	(35,747)
Capital asset purchases capitalized	156,956
Depreciation expense	<u>(37,648)</u>
Change in Net Position of Governmental Activities	<u><u>83,561</u></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, 2014**

	<u>ENTERPRISE FUND</u>
ASSETS	
Current Assets	
Cash in bank	78,900
Certificates of deposit	30,358
Restricted cash	24,492
Accounts receivable	12,881
Allowance for doubtful accounts	(4,975)
Due from other funds	6,977
Total Current Assets	<u>148,633</u>
Noncurrent Assets	
Depreciable capital assets	1,358,759
Accumulated depreciation	(575,078)
Construction in progress	38,266
Net capital assets	<u>821,947</u>
TOTAL ASSETS	<u><u>970,580</u></u>
LIABILITIES	
Current Liabilities	
Accounts payable	7,939
Construction accounts payable	6,450
Accrued payroll liabilities	3,699
Accrued interest payable	190
Current portion of long-term debt	7,650
Total Current Liabilities	<u>25,928</u>
Noncurrent Liabilities	
Meter deposits refundable	5,545
Long-term debt, less current portion	92,800
Total Noncurrent Liabilities	<u>98,345</u>
TOTAL LIABILITIES	<u>124,273</u>
NET POSITION	
Net investment in capital assets	721,497
Restricted for debt service	16,281
Unrestricted	108,529
TOTAL NET POSITION	<u><u>846,307</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, 2014**

	<u>UTILITY FUND</u>
OPERATING REVENUES	
Sewer revenue	21,654
Trash revenue	24,172
Water revenue	75,383
Other revenues	<u>3,153</u>
TOTAL OPERATING REVENUES	124,362
OPERATING EXPENSES	
Administration department	23,180
Sewer department	48,706
Trash department	19,841
Water department	<u>70,748</u>
TOTAL OPERATING EXPENSES	162,475
OPERATING (LOSS)	(38,113)
NON-OPERATING REVENUES (EXPENSES)	
Interest income	167
Interest expense	(1,604)
Trustee fees	<u>(750)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	(2,187)
(LOSS) BEFORE TRANSFERS	(40,300)
Interfund transfers	<u>9,100</u>
CHANGE IN NET POSITION	(31,200)
BEGINNING NET POSITION	<u>877,507</u>
ENDING NET POSITION	<u><u>846,307</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, 2014**

	<u>UTILITY FUND</u>
Cash flows from operations:	
Cash received from:	
Customers	128,679
Cash payments for:	
Goods and services	(87,275)
Employees	<u>(24,308)</u>
Net cash provided from operations	17,096
Cash flows from capital financing activities:	
Interest received	165
Transfers to trust accounts	(8,710)
Trustee fees	(750)
Grant transfers	2,650
Capital asset purchases	<u>(2,650)</u>
Net cash from capital financing activities	<u>(9,295)</u>
Net increase (decrease) in cash	7,801
Beginning cash	<u>71,099</u>
Ending cash	<u><u>78,900</u></u>
Reconciliation of income from operations to net cash from operations:	
Operating income (loss)	(38,113)
Adjustments to income from operations:	
Depreciation	48,669
Bad debts	2,323
Change in assets and liabilities:	
(Increase) decrease in receivables	1,216
Increase (decrease) in payables	<u>3,001</u>
Net cash provided by operations	<u><u>17,096</u></u>
Supplemental information:	
Trust accounts, beginning balance	16,242
Transfers from Town of Kremlin	8,710
Interest income	2
Principal	(7,050)
Interest payments	<u>(1,623)</u>
Trust accounts, ending balance	<u><u>16,281</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, 2014**

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.

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.

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.

**The Town of Kremlin
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2014**

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 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

**The Town of Kremlin
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2014**

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.

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

**The Town of Kremlin
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2014**

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.

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

**The Town of Kremlin
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2014**

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 \$84,179 and \$1,086 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 \$16,281 and \$8,212 respectively.

5. Capital Assets

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

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities				
Depreciable assets				
Buildings	199,765	2,918	0	202,683
Equipment	376,948	154,037	0	530,985
Total depreciable assets	576,713	156,955	0	733,668
Depreciation				
Buildings	99,273	8,283	0	107,556
Equipment	194,822	29,364	0	224,186
Total depreciation	294,095	37,647	0	331,742
Net depreciable assets	282,618	119,308	0	401,926
Business-type activities				
Non-depreciable assets				
Construction in progress	29,166	9,100	0	38,266
Total non-depreciable assets	29,166	9,100	0	38,266
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	3,809	279	0	4,088
Equipment	13,052	0	0	13,052
Utility systems	509,548	48,390	0	557,938
Total depreciation	526,409	48,669	0	575,078
Net depreciable assets	832,350	(48,669)	0	783,681
Net business-type assets	861,516	(39,569)	0	821,947

**The Town of Kremlin
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2014**

Depreciation expense was charged to functions as follows:

Governmental activities		Business-type activities	
General government	5,402	Administration department	279
Community building	4,438	Sewer department	38,082
Fire department	27,808	Water department	10,308
Total depreciation	<u>37,648</u>	Total depreciation	<u>48,669</u>

6. Long-term Debt

Long-term debt activity for the year ended June 30, 2014, was as follows:

Business-type Activities	<u>Beginning</u>			<u>Ending</u>	
	<u>Balance</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance</u>	<u>Due in One Year</u>
Note payable - sewer system	107,500	0	(7,050)	100,450	7,650

Outstanding debt at June 30, 2014 consisted of the following:

Business-type	Interest Rates	Rates Change	Original Balance	Year End Balance	Collateral
Sewer system	Variable	Quarterly	175,000	100,450	Utility revenues and mortgage

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. Interest rates for the year were 1.56% from July through February; and 1.51% from March through June.

Debt service requirements to maturity are as follows:

	Business-type Activities		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	7,650	1,491	9,141
2016	8,350	1,367	9,717
2017	9,000	1,234	10,234
2018	9,800	1,089	10,889
2019	10,600	932	11,532
2020-2024	55,050	1,906	56,956
	<u>100,450</u>	<u>8,019</u>	<u>108,469</u>

**The Town of Kremlin
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2014**

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.

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, 2014, 2013 and 2012 was \$540, \$1,500 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. Interfund Transfers

Inter-fund transfers of \$9,100 consisted of grant funds for water system improvements.

**The Town of Kremlin
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2014**

11. Subsequent Events

Management performed an evaluation of the Town's activity through July 8, 2015, the date the audit report was available to be issued, and has concluded that there are no significant subsequent events requiring disclosure through that date.

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

The Board of Trustees
The Town of 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, 2014, 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 July 8, 2015.

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 deficiency 2014-1 described in the accompanying schedule of findings and responses to be a material weakness.

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 deficiency 2014-2 to be a significant deficiency.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2014-2.

The Town of Kremlin's Response to Findings

The Town of Kremlin's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. 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.
July 8, 2015

SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2014

2014-1 **Criteria:** Procedures should be established to insure that capital assets are correctly recorded in the general ledger; that subsidiary schedules of capital assets are adequately maintained; and that capital assets are reconciled to the general ledger and to insurance policies at least annually.

Condition: Capital assets are not being correctly recorded in the general ledger; subsidiary schedules of capital assets are not being adequately maintained; and capital assets are not being reconciled to the general ledger or to insurance policies at least annually.

Cause: There are no established procedures to insure that capital assets are correctly recorded in the general ledger; that subsidiary schedules of capital assets are adequately maintained; or that capital assets are reconciled to the general ledger and to insurance policies at least annually.

Effect: Because there are no established procedures to insure that capital assets are correctly recorded in the general ledger; that subsidiary schedules of capital assets are adequately maintained; or that capital assets are reconciled to the general ledger and insurance policies at least annually, errors in either the general ledger, subsidiary schedules, or insurance policies may exist and not be corrected on a timely basis.

Recommendation: We recommend that procedures be established to make sure that capital assets are correctly recorded in the general ledger; that subsidiary schedules of capital assets are adequately maintained; and that capital assets are reconciled to the general ledger and to insurance policies at least annually.

Response: We will establish procedures to insure that capital assets are correctly recorded in the general ledger; that subsidiary schedules of capital assets are adequately maintained; and that capital assets are reconciled to the general ledger and to insurance policies at least annually.

2014-2 **Criteria:** Procedures should be established to insure that budgets are prepared in accordance with state statutes and amended as needed during the year.

Condition: Budgets are not being prepared in accordance with state statutes and are not being amended as needed during the year.

Cause: There are no established procedures to insure that budgets are prepared in accordance with state statutes and amended as needed during the year.

Effect: Because there are no established procedures to insure that budgets are prepared in accordance with state statutes and amended as needed, budgets are not being prepared in accordance with state statutes or amended as needed.

Recommendation: We recommend that procedures be established to make sure that budgets are prepared in accordance with state statutes and amended as needed during the year.

Response: We will review state statutes pertaining to budgets and establish procedures to insure that budgets are prepared in accordance with state statutes and amended during the year as needed.