

TOWN OF DRUMMOND

Drummond, Oklahoma

FINANCIAL STATEMENTS

For the Year Ended December 31, 2013

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**TOWN OF DRUMMOND
DRUMMOND, OKLAHOMA**

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INDEPENDENT AUDITOR'S REPORT

To the Town Council
Town of Drummond, Oklahoma

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Drummond, Oklahoma, as of and for the year ended December 31, 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

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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. Those standards require that I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Basis for Adverse Opinion on Business-Type Activities

Management has not recorded fixed assets at historical cost in the proprietary fund and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those fixed assets be capitalized and depreciated, which would increase the assets, net position, and expenses of the business-type activities. The amount by which this departure would affect the assets, net position, and expenses of the business-type activities has not been determined.

Adverse Opinion

In my opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on Business-Type Activities” paragraph, the financial statements referred to previously do not present fairly the financial position of the business-type activities of the Town of Drummond, Oklahoma, as of December 31, 2013, or the changes in financial position and, where applicable, cash flows thereof for the year then ended.

Unmodified Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Drummond, Oklahoma, as of December 31, 2013, and the respective changes in financial position 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 the budgetary comparison information 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. My opinion of the basic financial statements is not affected by this missing information.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Drummond, Oklahoma’s basic financial statements. The schedule of grant funds, on page 33, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of grant funds is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the schedule of grant funds is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated August 13, 2014, on my consideration of the Town of Drummond, Oklahoma’s, internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal

control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Drummond, Oklahoma's, internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to read "Bruce Luttrell". The signature is written in a cursive style with a large initial "B" and "L".

Bruce Luttrell, CPA, PC

August 13, 2014

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**TOWN OF DRUMMOND
STATEMENT OF NET ASSETS
DECEMBER 31, 2013**

Statement 1

	Government Activities	Business-Type Activities	Totals
Assets			
Current assets			
Cash and cash equivalents	\$ 38,500.34	\$ 70,876.59	\$ 109,376.93
Restricted cash and cash equivalents	34,605.54	10,965.08	45,570.62
Accounts receivable		6,172.99	6,172.99
Allowance for doubtful accounts		(913.25)	(913.25)
Prepaid insurance	2,489.00		2,489.00
Receivable from other governments	4,777.67		4,777.67
Due from other funds	14,507.69		14,507.69
Total current assets	<u>94,880.24</u>	<u>87,101.41</u>	<u>181,981.65</u>
Noncurrent assets			
Capital assets:			
Land		6,949.37	6,949.37
Buildings	78,612.88	16,399.19	95,012.07
Equipment & vehicles	125,102.12	69,360.61	194,462.73
Infrastructure	37,268.76	639,272.58	676,541.34
Less accumulated depreciation	(133,612.69)	(263,649.82)	(397,262.51)
Total noncurrent assets	<u>107,371.07</u>	<u>468,331.93</u>	<u>575,703.00</u>
Total assets	<u>202,251.31</u>	<u>555,433.34</u>	<u>757,684.65</u>
Liabilities			
Current liabilities			
Accounts payable		11,753.60	11,753.60
Payroll taxes payable		954.11	954.11
Total current liabilities	<u>-</u>	<u>12,707.71</u>	<u>12,707.71</u>
Noncurrent liabilities			
Due to other funds		14,507.69	14,507.69
Refundable deposits		9,904.38	9,904.38
Total noncurrent liabilities	<u>-</u>	<u>24,412.07</u>	<u>24,412.07</u>
Total liabilities	<u>-</u>	<u>37,119.78</u>	<u>37,119.78</u>
Net assets (Note 1.D.)			
Invested in capital assets, net of related debt	107,371.07	468,331.93	575,703.00
Assigned	-	9,904.38	9,904.38
Committed	50,514.36	1,060.70	51,575.06
Unassigned	44,365.88	39,016.55	83,382.43
Total net assets	<u>\$ 202,251.31</u>	<u>\$ 518,313.56</u>	<u>\$ 720,564.87</u>

The accompanying notes to the basic financial statements are an integral part of this statement.

**TOWN OF DRUMMOND
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2013**

Statement 2

Functions/programs	Program Revenues					Net (Expenses) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contracts	Capital Grants and Contracts	Totals	Primary Government		
						Governmental Activities	Business-type Activities	Totals
Governmental activities								
General government	\$ 46,028.65	\$ -	\$ -	\$ -	\$ (46,028.65)	\$ -	\$ -	\$ (46,028.65)
Public safety	25,186.50	11,540.00	-	-	(13,646.50)	-	-	(13,646.50)
Street department	9,447.08	-	-	-	(9,447.08)	-	-	(9,447.08)
Fire department	14,572.40	-	4,473.98	-	(10,098.42)	-	-	(10,098.42)
Capital outlay	482,686.72	-	-	482,686.72	-	-	-	-
Total government activities	577,921.35	11,540.00	4,473.98	482,686.72	(79,220.65)	-	-	(79,220.65)
Business-type activities								
Administrative	45,278.64	-	-	-	-	(45,278.64)	-	(45,278.64)
Sewer department	11,291.42	32,995.58	-	-	-	21,704.16	-	21,704.16
Sanitation	33,101.26	34,631.51	-	-	-	1,530.25	-	1,530.25
Water department	99,396.75	97,988.74	-	-	-	(1,408.01)	-	(1,408.01)
Total business-type activities	189,068.07	165,615.83	-	-	-	(23,452.24)	-	(23,452.24)
Totals	\$ 766,989.42	\$ 177,155.83	\$ 4,473.98	\$ 482,686.72	(79,220.65)	(23,452.24)	(102,672.89)	
General revenues								
Sales tax					39,202.16	-	-	39,202.16
Use tax					3,231.39	-	-	3,231.39
Cigarette tax					491.94	-	-	491.94
Intergovernmental revenue not restricted to specific programs					1,559.52	-	-	1,559.52
Intergovernmental revenue restricted for streets & alleys					4,214.06	-	-	4,214.06
Franchise fees					14,063.09	-	-	14,063.09
Miscellaneous					17,427.94	2,019.43	-	19,447.37
Investment earnings					132.85	8.31	-	141.16
Transfers: In					4,949.49	-	-	4,949.49
Transfers: Out					(4,949.49)	-	-	(4,949.49)
Total general revenues and transfers					80,322.95	2,027.74	-	82,350.69
Change in net assets					1,102.30	(21,424.50)	-	(20,322.20)
Net assets, beginning of year					201,149.01	539,738.06	-	740,887.07
Net assets, end of year					\$ 202,251.31	\$ 518,313.56	\$ -	\$ 720,564.87

The accompanying notes to the basic financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

**TOWN OF DRUMMOND
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2013**

Statement 3

	General Fund	Fire Department Fund	Street & Alley Fund	Total Governmental Funds
Assets				
Current assets				
Cash and cash equivalents	\$ 38,500.34	\$ -	\$ -	\$ 38,500.34
Restricted cash and investments		21,780.43	12,825.11	34,605.54
Accounts receivable	3,376.54	468.75	932.38	4,777.67
Prepaid insurance	2,489.00			2,489.00
Due from other funds		14,507.69		14,507.69
Total assets	\$ 44,365.88	\$ 36,756.87	\$ 13,757.49	\$ 94,880.24
Liabilities				
Current liabilities				
Payroll taxes payable	\$ -	\$ -	\$ -	\$ -
Total current liabilities	-	-	-	-
Fund Balance (Note 1.D.)				
Assigned				-
Committed		36,756.87	13,757.49	50,514.36
Unassigned	44,365.88	-	-	44,365.88
Total fund balances	44,365.88	36,756.87	13,757.49	94,880.24
Total liabilities and fund balances	\$ 44,365.88	\$ 36,756.87	\$ 13,757.49	

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$ 240,983.76

The accumulated depreciation is \$ 133,612.69

Net effect for reconciliation

107,371.07

Net assets of governmental activities

\$ 202,251.31

TOWN OF DRUMMOND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENT FUNDS
YEAR ENDED DECEMBER 31, 2013

Statement 4

	General Fund	Fire Department Fund	Street & Alley Fund	Total Governmental Funds
Revenues:				
Sales tax	\$ 28,649.99	\$ 5,160.92	\$ 5,391.25	\$ 39,202.16
Use tax	2,369.91	430.74	430.74	3,231.39
Intergovernmental	1,559.52		4,214.06	5,773.58
Cigarette tax	360.76	65.59	65.59	491.94
Franchise fees	14,063.09			14,063.09
Grants	482,686.72	4,473.98		487,160.70
Fines and forfeitures	11,540.00			11,540.00
Charges for services				-
Miscellaneous	7,103.58	10,324.36		17,427.94
Sale of assets				-
Investment income	132.85			132.85
Total revenues	<u>548,466.42</u>	<u>20,455.59</u>	<u>10,101.64</u>	<u>579,023.65</u>
Expenditures:				
General government:				
General government	41,908.51			41,908.51
Public safety:				
Police	25,186.50			25,186.50
Fire department		8,710.44		8,710.44
Streets			7,669.33	7,669.33
Capital outlay	482,686.72			482,686.72
Total expenditures paid	<u>549,781.73</u>	<u>8,710.44</u>	<u>7,669.33</u>	<u>566,161.50</u>
Excess of revenues collected over (under) expenditures	<u>(1,315.31)</u>	<u>11,745.15</u>	<u>2,432.31</u>	<u>12,862.15</u>
Other financing sources (uses)				
Operating transfers in	-	3,634.09	1,315.40	4,949.49
Operating transfer out	(4,949.49)	-	-	(4,949.49)
Total other financing sources (uses)	<u>(4,949.49)</u>	<u>3,634.09</u>	<u>1,315.40</u>	<u>-</u>
Excess (deficiency) of revenues and other resources over expenditures and other uses	(6,264.80)	15,379.24	3,747.71	12,862.15
Fund balances, beginning of year	<u>45,939.21</u>	<u>21,377.63</u>	<u>10,009.78</u>	<u>77,326.62</u>
Fund balances, end of year	<u>\$ 39,674.41</u>	<u>\$ 36,756.87</u>	<u>\$ 13,757.49</u>	<u>\$ 90,188.77</u>

The accompanying notes to the basic financial statements are an integral part of this statement.

**TOWN OF DRUMMOND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENT FUNDS
YEAR ENDED DECEMBER 31, 2013**

Statement 4 (cont.)

Reconciliation of the change in fund balances: total governmental funds to the change in net assets of governmental activities:

Net change in fund balances: total governmental funds	\$	12,862.15
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:

Capital asset purchases capitalized		-
Depreciation		(11,759.85)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Change in accrued compensated absences		-
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Change in net assets of governmental activities	\$	1,102.30
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The accompanying notes to the basic financial statements are an integral part of this statement.

**TOWN OF DRUMMOND
STATEMENT OF NET ASSETS
PROPRIETARY FUND
DECEMBER 31, 2013**

Statement 5

	<u>Public Works Authority Enterprise Fund</u>
Assets	
Current assets	
Cash and cash equivalents	\$ 70,876.59
Restricted cash and cash equivalents	10,965.08
Accounts receivable	6,172.99
Allowance for uncollectible accounts	(913.25)
Total current assets	<u>87,101.41</u>
Noncurrent assets	
Capital assets:	
Land	6,949.37
Buildings	16,399.19
Equipment	69,360.61
Sewer system	40,457.44
Water system	598,815.14
Less accumulated depreciation	(263,649.82)
Total noncurrent assets	<u>468,331.93</u>
Total assets	<u>555,433.34</u>
Liabilities	
Current liabilities	
Accounts payable	11,753.60
Payroll taxes payable	954.11
Total current liabilities	<u>12,707.71</u>
Noncurrent liabilities	
Due to other funds	14,507.69
Refundable deposits	9,904.38
Total noncurrent liabilities	<u>24,412.07</u>
Total liabilities	<u>37,119.78</u>
Net assets	
Invested in capital assets, net of related debt	468,331.93
Restricted	10,965.08
Unassigned	39,016.55
Total net assets	<u>\$ 518,313.56</u>

The accompanying notes to the basic financial statements are an integral part of this statement.

TOWN OF DRUMMOND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUND
YEAR ENDED DECEMBER 31, 2013

Statement 6

	Public Works Authority
	Enterprise Fund
Operating revenue	
Charges for services:	
Water	\$ 93,864.12
Sewer	32,995.58
Trash	34,631.51
Late payment penalties	4,124.62
Other revenue	2,019.43
Total operating revenue	167,635.26
 Operating expenses:	
Administrative	40,661.51
Water	74,865.11
Sewer	10,698.44
Sanitation	33,101.26
Depreciation and amortization	29,741.75
Total operating expenses	189,068.07
 Net operating income	(21,432.81)
 Nonoperating revenue (expense)	
Investment income	8.31
Total nonoperating revenue	8.31
 Net income before transfers	(21,424.50)
Operating transfers: In	-
Operating transfers: Out	-
 Net income	(21,424.50)
 Net assets beginning of year	539,738.06
 Net asset end of year	\$ 518,313.56

The accompanying notes to the basic financial statements are an integral part of this statement.

**TOWN OF DRUMMOND
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED DECEMBER 31, 2013**

Statement 7

	Public Works Authority
	Enterprise Fund
Cash flows from operating activities	
Receipts from customers	\$ 176,505.53
Payments to suppliers	(92,194.75)
Payments to employees	(57,390.61)
Receipts of customer utility deposits	920.00
Refunds of customer utility deposits	(90.00)
Net cash provided (used) by operating activities	27,750.17
Cash flows from capital and related financing activities	
Principal paid on capital debt	-
Interest paid on capital debt	-
Net cash provided (used) by capital and related financing activities	-
Cash flows from investing activities	
Interest income	8.31
Miscellaneous income	-
Net cash provided (used) by investing activities	8.31
Net increase (decrease) in cash and cash equivalents	27,758.48
Cash balance beginning of year	43,118.11
Cash balance end of year	\$ 70,876.59
Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating income (loss)	\$ (21,432.81)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Cash flows reported in other categories:	
Depreciation and amortization expense	29,741.75
Bad debts	
Change in assets and liabilities:	
Accounts receivable	7,043.77
Restricted cash and investments	8.08
Accounts payable	11,435.27
Accrued payroll taxes	954.11
Net cash provided by operating activities	\$ 27,750.17

The accompanying notes to the basic financial statements are an integral part of this statement.

NOTES TO BASIC FINANCIAL STATEMENTS

TOWN OF DRUMMOND
Drummond, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town complies with generally accepted accounting principles (GAAP.) GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary fund, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the Town the option of electing to apply FASB pronouncements issued after November 30, 1989. The Town has elected not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

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

1.A. FINANCIAL REPORTING ENTITY

In evaluating how to define the reporting entity, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board (GASB), GASB Statement No. 14, *The Financial Reporting Entity*. The basic (but not the only) criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility included, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the Town and/or its citizens, or whether the activity is conducted within the geographic boundaries of the Town and is generally available to its patrons. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financial relationships, regardless of whether the Town is able to exercise oversight responsibilities.

Based upon the application of these criteria, the Town's financial reporting entity is composed of the following:

Primary Government:	Town of Drummond
Blended Component Unit:	Drummond Public Works Authority

BLENDING COMPONENT UNIT

A blended component unit is a separate legal entity that meets the component unit criteria. In addition, the blended component unit's governing body is the same or substantially the same as the Town Council, or the component unit provides services entirely to the Town. The component unit's funds are blended into those of the Town by appropriate fund type to constitute the primary government presentation. The blended component unit is presented below:

TOWN OF DRUMMOND
Drummond, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2013

1.A. FINANCIAL REPORTING ENTITY (continued)

<u>Component Unit</u>	<u>Brief Description / Inclusion Criteria</u>	<u>Fund Included In</u>
Public Works Authority (PPWA)	Created September 10, 1984, to finance, develop, and operate the water, sewer, recreational and industrial facilities of the Town. The current Town Council serves as entire governing body (trustees). The Town of Drummond is the beneficiary of the trust.	PWA Enterprise Fund

DISCRETELY PRESENTED COMPONENT UNIT

Discretely presented component units are separate legal entities that meet the component unit criteria but do not meet the criteria for blending. The Town of Drummond does not have any discretely presented component units.

The Drummond Public Works Authority does not issue separately audited component unit financial statements.

1.B. BASIS OF PRESENTATION

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 except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

FUND FINANCIAL STATEMENTS

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. The Town presently has no fiduciary funds. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

TOWN OF DRUMMOND
Drummond, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2013

1.B. BASIS OF PRESENTATION (continued)

Governmental Funds

Governmental funds are those through which most governmental functions are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance.

General Fund

The General Fund is the primary operating fund of the Town and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of the specific revenue sources that are either legally restricted to expenditures for specified purposes or designated to finance particular functions or activities of the Town. The reporting entity includes the following special revenue funds, which are reported as major funds:

<u>Fund</u>	<u>Brief Description</u>
Fire Department Fund	Accounts for the proceeds of the fees charged by the volunteer fire department.
Street & Alley Fund	Accounts for gasoline excise and commercial vehicle taxes legally restricted for street and alley improvements.

Proprietary Funds

Enterprise Fund

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges, and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the following enterprise fund that is reported as a major fund:

<u>Fund</u>	<u>Brief Description</u>
Public Works Authority	Accounts for the activities of the public trust in providing water, sewer, and solid waste services to the public.

TOWN OF DRUMMOND
Drummond, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2013

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe “how” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

MEASUREMENT FOCUS

In the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent, financial, or nonfinancial) associated with their activities are reported. Proprietary fund equity is classified as net assets.

BASIS OF ACCOUNTING

In the government-wide Statement of Net Assets and Statement of Activities and the fund financial statements, governmental, business-like, and component unit activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

TOWN OF DRUMMOND
Drummond, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2013

1.D. ASSETS, LIABILITIES, AND EQUITY

CASH AND CASH EQUIVALENTS

For the purpose of financial reporting, "cash and cash equivalents" include all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less.

INVESTMENTS

Investments classified in the financial statements, consist entirely of certificates of deposit whose original maturity term exceeds three months. Investments are carried at cost, which approximates fair value.

RECEIVABLES

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Uncollectible accounts receivable, based upon historical trends, are very minimal and thus immaterial to the financial statements. Major receivable balances for the governmental activities include sales tax, franchise taxes, alcoholic beverage tax, and motor vehicle taxes. Business-type activities report utilities as their major receivables.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as sales tax, franchise tax, and grants and other similar intergovernmental revenues since they are usually both measurable and available. Nonexchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable and interest earnings compose the majority of proprietary fund receivables. Uncollectible accounts receivable, based upon historical trends, are very minimal and thus immaterial to the financial statements.

INTERFUND RECEIVABLES AND PAYABLES

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Short-term interfund loans are reported as "interfund receivables and payables." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note 3.H. for details of interfund transactions, including receivables and payables at year-end.

INVENTORIES

The cost of consumable materials and supplies on hand are immaterial to the financial statements, and the Town has therefore chosen to report these items as expenditures at the time of purchase.

TOWN OF DRUMMOND
Drummond, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2013

1.D. ASSETS, LIABILITIES, AND EQUITY (continued)

CAPITAL ASSETS

The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund and similar discretely presented component unit operations and whether they are reported in the government-wide or fund financial statements.

Government-Wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable. Prior to July 1, 2003, governmental funds' infrastructure assets were not capitalized. And, under GASB No. 34, small towns are not required to retroactively report infrastructure assets, and the Town of Drummond has elected not to retroactively report. Infrastructure assets in governmental funds acquired since July 1, 2003, are recorded at cost.

Detail fixed asset records at historical cost have not been maintained of such assets which are still in service for the proprietary fund (Drummond Public Works Authority). The accrual basis of accounting requires that these assets be capitalized, and the related depreciation be recorded, which would increase the assets and expenses of the activities.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. A capitalization threshold of \$ 2,500 is used to report capital assets. The range of estimated useful lives by type of asset is as follows:

	<u>Years</u>
Machinery, furniture, and equipment	5-10
Vehicles	7
Utility property and improvements	25-40
Infrastructure	15-25

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets acquired for use in proprietary fund operations are accounted for the same as in the government-wide statements.

RESTRICTED ASSETS

Restricted assets include cash and investments that are legally restricted as to their use. The primary restricted assets of the proprietary fund are related to the utility meter deposits and the Check Free Pay program. The primary restricted assets of the governmental funds are the motor vehicle tax and gasoline excise tax, related to the Street and Alley Fund, and the balance related to the Fire Department Fund.

TOWN OF DRUMMOND
Drummond, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2013

1.D. ASSETS, LIABILITIES, AND EQUITY (continued)

LONG-TERM DEBT

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements. The long-term debt consists primarily of notes payable and accrued compensated absences.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principle and interest reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the government-wide statements.

COMPENSATED ABSENCES

The Town does not have a formal policy for vacation or sick leave. The Town has negotiated these items on an individual basis with employees. The Town Clerk is eligible for vacation leave, which accrues at one week after completing one year of employment, and two weeks after completing two years of employment. Vacation leave is vested, thus any unused vacation leave is paid upon separation. There was no accrued vacation leave at December 31, 2013. The Town Clerk is also eligible for sick leave, which accrues at one working day per month, up to a maximum of two weeks. Sick leave is not vested, thus it is not paid upon separation.

EQUITY CLASSIFICATION

As of December 31, 2011, the Town adopted Governmental Accounting Standards Board (GASB) Stmt. No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds, as follows:

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Town applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

TOWN OF DRUMMOND
Drummond, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2013

1.D. ASSETS, LIABILITIES, AND EQUITY (continued)

Fund Balance

Fund Balance is divided into five classifications based primarily on the extent to which the Town is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable – The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.

Restricted – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation (Town ordinances).

Enabling legislation authorizes the Town to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the Town can be compelled by an external party – such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of the Town Council. Those committed amounts cannot be used for any other purpose unless the Town Council removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by the Town Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints are not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – Amounts in the assigned fund balance classification are intended to be used by the Town for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Town Council or a Town official delegated that authority by Town Charter or ordinance.

Unassigned – Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

TOWN OF DRUMMOND
Drummond, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2013

1.D. ASSETS, LIABILITIES, AND EQUITY (continued)

The Town applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Fund balances at December 31, 2013, for the governmental funds are as follows:

	<u>Special Revenue Funds</u>			<u>Total</u>
	<u>General Fund</u>	<u>Fire Department Fund</u>	<u>Street & Alley Fund</u>	
Fund balances:				
Invested in capital assets	45,101.92	29,384.89	32,884.26	107,371.07
Committed to:				
Streets			13,757.49	13,757.49
Fire department		36,756.87		36,756.87
Total Committed		36,756.87	13,757.49	50,514.36
Unassigned	44,365.88			44,365.88
Total Fund Balances	<u>89,467.80</u>	<u>66,141.76</u>	<u>46,641.75</u>	<u>202,251.31</u>

1.E. REVENUES, EXPENDITURES, AND EXPENSES

SALES TAX

The Town presently levies a three cent sales tax on taxable sales within the Town. The sales tax is collected by the Oklahoma Tax Commission and remitted to the Town in the month following receipt by the Tax Commission. The Tax Commission receives the sales tax approximately one month after collection by vendors. The sales tax collected by the State in December and received by the Town in January has been accrued and is included under the caption "Receivable from other governments."

In accordance with the Town's ordinances, 60 % of two cents of the sales tax is for the purpose of police and fire protection and streets. But, it's not limited to, public safety, police apparatus and vehicles, and fire apparatus and vehicles. Thus, the sales tax is split each month, with 60 % of two cents split three ways: police, fire, and streets.

USE TAX

The Town levies a three cent use tax on personal property purchased outside the city limits but stored, used, or consumed within the Town. The use tax is collected by the Oklahoma Tax Commission and remitted to the Town in the month following receipt by the Tax Commission, which is one month after the tax is received from the vendors. The use tax is allocated the same as the sales tax discussed in the previous section. Use tax collected by the State in December and received by the Town in January has been accrued and is included under the caption "Receivable from other governments."

TOWN OF DRUMMOND
Drummond, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2013

1.E. REVENUES, EXPENDITURES, AND EXPENSES (continued)

PROGRAM REVENUES

In the Statement of Activities, revenues that are derived directly from each activity or from parties outside the Town's taxpayers are reported as program revenues. The Town has the following program revenues in each activity:

Public Safety	Fines and forfeitures
Fire Department	Fire protection, operating grants, including a State Department of Agriculture grant
Street Department	Gas tax from the State, and the motor vehicle tax from the county

All other governmental revenues are reported as general. All taxes are classified as general revenue even if restricted for a specific purpose, except for the commercial vehicle tax and the gasoline excise tax, both of which are restricted for street and alley purposes.

OPERATING REVENUE AND EXPENSES

Operating revenues and expenses for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

1.F. INTERNAL AND INTERFUND BALANCES AND ACTIVITIES

In the process of aggregating the financial information for the government-wide Statement of Net Assets and Statement of Activities, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

FUND FINANCIAL STATEMENTS

Interfund activity, if any, within and among the governmental and proprietary fund categories is reported as follows in the fund financial statements:

1. Interfund loans – Amounts provided with a requirement for repayment are reported as interfund receivables and payables.
2. Interfund services – Sales or purchases of goods and services between funds are reported as revenues and expenditures/expenses.
3. Interfund reimbursements – Repayments from funds responsible for certain expenditures/expenses to the funds that initially paid for them are not reported as reimbursements but as adjustments to expenditure/expenses in the respective funds.
4. Interfund transfers – Flow of assets from one fund to another where repayment is not expected are reported as transfers in and out.

TOWN OF DRUMMOND
Drummond, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2013

1.E. REVENUES, EXPENDITURES, AND EXPENSES (continued)

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

1. Internal balances – Amounts reported in the fund financial statements as interfund receivables and payables are eliminated in the governmental and business-type activities columns of the Statement of Net Assets, except for the net residual amounts due between governmental and business-type activities, which are reported as Internal Balances.
2. Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers – Internal Activities. The effects of interfund services between funds, if any, are not eliminated in the Statement of Activities.
3. Primary government and component unit activity and balances – Resource flows between the primary government (the Town and Public Works Authority) and the discretely-presented component unit (if any) are reported as if they were external transactions and are classified separately from internal balances and activities within the primary government.

1.G. USE OF ESTIMATES

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

By its nature as a local government unit, the Town and its component units are subject to various federal, state, and local laws and contractual regulations. An analysis of the Town's compliance with significant laws and regulations and demonstration of its stewardship over Town resources follows.

2.A. UNINSURED AND UNCOLLATERALIZED DEPOSITS

In accordance with State law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain State or political subdivision debt obligations, surety bonds, or certain letters of credit. As reflected in Note 3.A., all the Town's deposits were fully insured or collateralized at December 31, 2013.

NOTE 3. DETAIL NOTES – TRANSACTION CLASSES/ACCOUNTS

3.A. DEPOSITS AND INVESTMENTS

Custodial Credit Risk

At December 31, 2013, the Town held deposits of \$ 154,947.55 at financial institutions. The Town's cash

TOWN OF DRUMMOND
Drummond, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2013

3.A. DEPOSITS AND INVESTMENTS (continued)

deposits, including interest-bearing certificates of deposit and savings accounts, are entirely covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the Town or by its agent in the Town's name.

Investment Interest Rate Risk

The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The Town has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies, and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper, and repurchase agreements with certain limitations.
- d. County, municipal, or school district tax-supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality, or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the Securities and Exchange Commission and in which investments consist of the investments mentioned in the previous paragraphs a,b,c, and d.

Public trusts created under O.S. Title 60 are not subject to the above noted investment limitations and are primarily governed by any restrictions in their trust or bond indentures. For the year ended December 31, 2013, the Town and the Public Works Authority complied, in all material respects, with these investment restrictions.

The deposits and investments held at December 31, 2013, are as follows:

Type	Maturity (Months)	Credit Rating	Market Value	Cost
Cash Deposits	N/A	N/A	123,809.22	123,809.22
Investments				
Certificate of Deposit	12	N/A	<u>31,138.33</u>	<u>31,138.33</u>
Total Deposits and Investments			<u>154,947.55</u>	<u>154,947.55</u>

Reconciliation to Statement of Net Assets

Governmental Activities	\$ 73,105.88
Business-Type Activities	<u>81,841.67</u>
	<u>\$ 154,947.55</u>

TOWN OF DRUMMOND
Drummond, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2013

3.B. RESTRICTED ASSETS

The amounts reported as restricted assets are composed of amounts held by the Public Works Authority for utility deposits (refunded upon termination of service or applied to final bill) of \$ 9,904.38; amounts held in the Check Free Pay Program account of \$ 1,060.70; amounts held by the Town in the Street & Alley Fund of \$ 13,757.49; and amounts held in the Fire Department Fund of \$ 36,756.87.

3.C. RESTRICTED REVENUES

The Town has various restrictions placed over certain revenue sources from state or local requirements. The primary restricted revenue sources include:

Revenue Source	Legal Restrictions of Use
Sales Tax	Police, Fire and Streets
Gasoline Excise & Commercial Vehicle Tax	Street & Alley purposes
Water, Sewer, and Trash revenue	Utility operations
Grant proceeds	Grant expenditures

3.D. ACCOUNTS RECEIVABLE

Accounts receivable of the business-type activities consist of utilities receivable. Accounts receivable of the governmental activities consist of sales tax (59.7%), use tax (13.1%), tobacco tax (0.8%), franchise tax (13.7%), alcoholic beverage tax (3.0%), and other (9.7%). Receivables detail at December 31, 2013, is as follows:

	Governmental Activities	Business-type Activities	Total
Accounts receivable	\$ 4,778	5,260	10,038

3.E. CAPITAL ASSETS

Capital asset activity for the fiscal year ended December 31, 2013, was as follows:

	Balance at January 1, 2013	Additions	Deductions	Balance at December 31, 2013
<i>Governmental activities:</i>				
Other capital assets:				
Buildings	78,613			78,613
Vehicles and equipment	125,102			125,102
Infrastructure	37,269			37,269
Total other capital assets at historical cost	240,984			240,984
Less accumulated depreciation for:				
Buildings	29,853	3,812		33,665
Vehicles and equipment	87,527	6,457		93,984
Infrastructure	4,473	1,491		5,964
Total accumulated depreciation	121,853	11,760		133,613
Other capital assets, net	119,131	<11,760>		107,371
Government activities capital assets, net	119,131	<11,760>		107,371

TOWN OF DRUMMOND
Drummond, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2013

3.E. CAPITAL ASSETS (continued)

<i>Business-type activities:</i>	Balance at January 1, 2013	Additions	Deductions	Balance at December 31, 2013
Capital assets not being depreciated:				
Land	6,949			6,949
Total capital assets not being depreciated	<u>6,949</u>			<u>6,949</u>
Other capital assets:				
Buildings	16,399			16,399
Equipment	69,361			69,361
Water system	598,815			598,815
Sewer system	40,457			40,457
Total other capital assets at historical cost	<u>725,032</u>			<u>725,032</u>
Less accumulated depreciation for:				
Buildings	6,399	410		6,809
Equipment	33,025	4,207		37,232
Water system	170,332	24,531		194,863
Sewer system	24,151	593		24,744
Total accumulated depreciation	<u>233,907</u>	<u>29,741</u>		<u>263,648</u>
Other capital assets, net	<u>491,125</u>	<u><29,741></u>		<u>461,384</u>
Business-type activities capital assets, net	<u>498,074</u>	<u><29,741></u>		<u>468,333</u>

Depreciation expense was charged to functions as follows in the Statement of Activities:

Primary Government:	
Governmental Activities:	
General government	\$ 4,120
Streets	1,778
Fire department	5,862
Total depreciation expense for governmental activities	<u>\$ 11,760</u>
Business-Type Activities:	
Sewer	\$ 593
Water	24,531
Administrative and General	4,617
Total depreciation expense for business-type activities	<u>\$ 29,741</u>

3.F. ACCOUNTS PAYABLE

Payables in the General Fund and nonmajor governmental funds are composed entirely of payables to vendors. Payables of Utilities Enterprise Fund are also composed entirely of payables to vendors.

3.G. LONG-TERM DEBT

The reporting entity's long-term debt arising from cash transactions is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities.

TOWN OF DRUMMOND
Drummond, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2013

3.G. LONG-TERM DEBT (continued)

BUSINESS-TYPE ACTIVITIES

As of December 31, 2013, the long-term debt, arising from cash transactions, payable from proprietary fund resources consisted of the following:

Refundable Deposits:

- Refundable deposits reported as a liability within the Statement of Net Assets are composed of the following:

Utility Deposits – Refundable	\$ 9,904.38
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CHANGES IN LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended December 31, 2013.

Type of Debt	Balance January 1, 2013	Additions	Reductions	Balance December 31, 2013	Amount Due Within One Year
Business-Type Activities:					
Refundable deposits	9,074.38	920.00	90.00	9,904.38	9,904.38
Total Business-Type Activities	9,074.38	920.00	90.00	9,904.38	9,904.38

3.H. INTERFUND TRANSFERS AND BALANCES

INTERFUND TRANSFERS

Transfers between funds of the primary government for the year ended December 31, 2013, were as follows:

	Transfers In	Transfers Out
MAJOR FUNDS		
GENERAL FUND		
Fire Department Fund		3,634.09
Street & Alley Fund		1,315.40
Total General Fund		4,949.49
FIRE DEPARTMENT FUND	3,634.09	
STREET & ALLEY FUND	1,315.40	
GRAND TOTALS	4,949.49	4,949.49

The transfers reflected in the above schedule are used to move restricted resources collected by the General Fund to the funds authorized to spend the resources.

TOWN OF DRUMMOND
Drummond, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2013

NOTE 4: OTHER NOTES

4.A. EMPLOYEE PENSION AND OTHER BENEFIT PLANS

FIREFIGHTER'S PENSION AND RETIREMENT SYSTEMS

The Town of Drummond, as the employer, participates in the statewide cost-sharing multi-employer defined benefit plan on behalf of the volunteer firefighters. The system is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary.

Eligibility Factors, Contribution Methods, and Benefit Provisions

	Firefighter's Pension and Retirement System
Obtaining separately issued financial Statements	Firefighters Pension and Retirement 4545 N. Lincoln Blvd., Suite 265 Oklahoma City, Oklahoma 73105-3414
Eligibility to participate	All full-time or voluntary firefighters of a Participating municipality and hired before age 45.
Authority establishing contribution obligations and benefits	State Statute
Employee's contribution rate	N/A
City's contribution rate	\$ 60 per volunteer
State obligation	State appropriation to fund the unfunded actuarial accrued liability
Period required to vest	10 years
Eligibility and benefits for distribution (full-time)	20 years credited service, 2.5 % of final average salary multiplied by the years of credited service with a maximum of 30 years considered; if vested, at or after age 50, or after 10 but before 20 years of credited service, with reduced benefits.
Eligibility and benefits for distribution (volunteer)	20 years credited service equal to \$ 6.69 per month per year of service, with a maximum of 30 years considered. If vested, same as full-time.
Deferred retirement option	Yes, 20 years credited with continued service for a maximum of 30 or more years.
Provision for:	
Cost of living adjustments (normal retirement)	Yes, if vested by 5/05

TOWN OF DRUMMOND
Drummond, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2013

4.A. EMPLOYEE PENSION AND OTHER BENEFIT PLANS (continued)

	Firefighter's Pension and Retirement System
Death (duty, nonduty, post retirement)	Yes
Disability (duty, nonduty)	Yes
Cost of living allowances	Yes

Trend information showing the progress of the Systems in accumulating sufficient assets to pay benefits when due is presented in their respective separate annual financial reports.

Related-Party Investments

As of December 31, 2013, the System held no related-party investments of the Town or of its component units.

4.B. RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The Town manages these various risks of loss as follows:

Type of Loss	Method Managed	Risk of Loss Retained
a. Torts, errors, and omissions	Purchased insurance with Oklahoma Municipal Assurance Group	(1)
b. Physical property loss and natural disasters	Purchased commercial insurance, with a deductible of \$ 1,000	Deductible amount
c. Workers compensation	Workers comp is insured through State Insurance Fund with no deductible.	None

Management believes such coverage is sufficient to preclude any significant uninsured losses to the Town. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

Risk Entity Pools

The Town participates in the Oklahoma Municipal Assurance Group Liability Protection Plan (risk entity pool.)

(1) *Liability Protection Plan*

The basic insurance agreements cover claims against municipalities for all government functions,

TOWN OF DRUMMOND
Drummond, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2013

4.B. RISK MANAGEMENT (continued)

utilities, and services covered in the Plan. These include bodily injury, property damage, wrongful acts, personal injury, and related torts under the State tort claims law and federal civil rights laws.

All public officials, employees, services, and municipal functions are covered unless they are specifically listed as exclusions in the Plan.

The title to all assets acquired by the Plan are vested in the Group. In the event of termination of the Group, such property shall belong to the then members of the Group in equal shares. Each participating Town pays all costs, premiums, or other fees attributable to its respective participation in the Plan, and is responsible for its obligation under any contract entered into with the Plan.

Reserves for claim losses include provisions for reported claims on a case basis and an estimate of claims incurred but not reported limited by aggregate and individual loss levels as specified by the Plan's reinsurance contracts. These credits, if any, represent contingent liabilities of the Plan if the reinsurer was unable to meet its obligations under the reinsurance agreement.

The Plan's insurance agreements are reinsured for excess losses based upon the contract year. The significant components of each reinsurance contract can be obtained from the Plan's annual financial report.

4.C. COMMITMENTS AND CONTINGENCIES

COMMITMENTS

The Town was previously approved for a \$ 485,689 ("Cashing in the Wind") Stimulus Energy Efficiency Community Block Grant (SEECBG), funded by the U.S. Department of Energy, passed through the Oklahoma Department of Commerce, for the construction of a five turbine wind farm at the Drummond public school. The grant called for \$ 100,000 in matching funds. The funding period ran from September 21, 2009 through September 20, 2012. During the current year, \$ 482,686.72 was drawn, and expended, under the grant, and \$ 100,000 in matching costs were provided. The closing documents were filed in June 2013. See the Schedule of Grant Funds for further details.

CONTINGENCIES

Grant Program Involvement

In the normal course of operations, the Town participates in various federal or state grant/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

TOWN OF DRUMMOND
Drummond, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2013

4.C. COMMITMENTS AND CONTINGENCIES (continued)

Litigation

The Town is a party to various legal proceedings that normally occur in the course of governmental operations. The financial statements do not include accruals or provisions for loss contingencies that may result from these proceedings. State statutes provide for the levy of an ad valorem tax over a 3-year period by a Town "Sinking Fund" for the payment of any court assessed judgment rendered against the Town. While the outcome of the above noted proceedings cannot be predicted, due to the insurance coverage maintained by the Town and the State statute relating to judgments, the Town feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the Town.

4.D. SUBSEQUENT EVENTS

Subsequent events have been evaluated through August 13, 2014, which is the date the financial statements were available to be issued.

OTHER SUPPLEMENTARY INFORMATION

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

To the Town Council
Town of Drummond, Oklahoma

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Drummond, Oklahoma, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Town of Drummond, Oklahoma's, basic financial statements and have issued my report thereon dated August 13, 2014. My report included an explanatory paragraph that stated management had not presented the Management's Discussion and Analysis and the budgetary comparison information to supplement the financial statements. My report on the business-type activities was qualified due to the omission of fixed assets and related depreciation.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the Town of Drummond, Oklahoma's, internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Drummond, Oklahoma's, internal control. Accordingly, I do not express an opinion on the effectiveness of the Town of Drummond, Oklahoma's, internal control.

My 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 described in the accompanying schedule of findings and responses, I identified certain deficiencies in internal control that I 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. I consider the deficiencies described in the accompanying schedule of findings and responses # 2013-1 and # 2013-2 to be material weaknesses.

A *significant deficiency* is a deficiency, or a 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. I consider the deficiency described in the accompany schedule of findings and responses # 2013-3 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Drummond, Oklahoma's, financial statements are free from material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my 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 responses as items # 2013-4 and # 2013-5.

Town of Drummond, Oklahoma's, Response to Findings

The Town of Drummond, Oklahoma's, response to the findings identified in my audit is described in the accompanying schedule of findings and responses. The Town of Drummond, Oklahoma's, response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results 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.



Bruce G. Luttrell, CPA, PC

August 13, 2014

**TOWN OF DRUMMOND
SCHEDULE OF GRANT FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Exhibit 1

Federal/State Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Cash Accrued or Deferred Revenue at January 1, 2013	Contract Receipts Revenue Recognized	Contract Disbursements Expenditures	Interest Earned Federal Funds	Match Receipts or Revenue Recognized	Match Disbursements Expenditures	Cash Accrued or Deferred Revenue at December 31, 2013
<u>U.S. Department of Energy</u>										
Passed through the Oklahoma Department of Commerce										
Stimulus Energy Efficiency Community Block Grant (SEECBG)										
	81.128	13959 SEECBG 09	485,689.00	-	482,686.72	482,686.72	-	100,000.00	100,000.00	-
			<u>485,689.00</u>	<u>-</u>	<u>482,686.72</u>	<u>482,686.72</u>	<u>-</u>	<u>100,000.00</u>	<u>100,000.00</u>	<u>-</u>

TOWN OF DRUMMOND
Drummond, Oklahoma

SCHEDULE OF FINDINGS AND RESPONSES
For the year ended December 31, 2013

Exhibit 2

2013-1 Financial Statement Preparation

Condition: Personnel lack the accounting expertise to prevent, detect, or correct material misstatements in the financial statements.

Criteria: Employees who are unqualified, or untrained, and/or lack the expertise to prevent misstatements in the financial statements.

Cause: The Town is not large enough to justify the hiring of additional personnel.

Effect of Potential Effect: There is the possibility that the financial statements could include material misstatements and not be detected in a timely manner.

Recommendation: The Town should provide training to its employees, and/or contract with an independent party to review the financial statements, and provide necessary expertise.

Responsible Official's Response: The Town will provide continuing education to train employees to attempt to correct this deficiency.

2013-2 Financial Statement Preparation

Condition: Inadequate design of internal control over preparation of the financial statements which would prevent or detect a misstatement in the financial statements.

Criteria: Employees who are unqualified, or untrained, and/or lack the expertise to prepare the financial statements.

Cause: The Town is not large enough to justify the hiring of additional personnel.

Effect of Potential Effect: There is the possibility that the financial statements could include material misstatements and not be detected in a timely manner.

Recommendation: The Town should provide training to its employees, and/or contract with an independent party to prepare the financial statements, and provide necessary expertise.

Responsible Official's Response: The Town will provide continuing education to train employees to attempt to correct this deficiency.

2013-3 Segregation of Duties

Condition: The same individual that receives payments is also responsible for billing and adjustments, and posting payments to customers' accounts. In addition, only limited oversight is provided over this individual in the conduct of their daily functions.

Criteria: The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets and reconciliation of those asset accounts is an important control activity needed to adequately protect the Town's and Authority's assets and ensure accurate financial reporting.

Cause: The Town's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

Effect of Potential Effect: Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to billing and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation: I recommend that the council consider a formal evaluation of the risks associated with this lack of segregation of duties over cash and receivables. In response to the identified risks, consideration should be given to identifying and implementing controls that

TOWN OF DRUMMOND
Drummond, Oklahoma

SCHEDULE OF FINDINGS AND RESPONSES
For the year ended December 31, 2013

Exhibit 2

2013-3 (continued)

could help mitigate the risks associated with the lack of segregation of duties, such as providing increased management oversight and/or an independent reconciliation of accounts. For example, the Town might consider soliciting the assistance of independent labor to perform certain functions including performing compensating procedures where applicable.

Responsible Official's Response: The Town concurs with the recommendation, although the costs to correct this condition might exceed the benefit.

2013-4 Bank Reconciliations

Condition: The Town's bank accounts have not been reconciled to the books for most of 2013.

Criteria: Employees who are unqualified, or untrained, and/or lack the expertise to reconcile the bank accounts, could lead to misstatements in the financial statements.

Cause: The Town's limited size and staffing resources have made it difficult for management to provide sufficient training to employees.

Effect of Potential Effect: There is the possibility that the financial statements could include material misstatements.

Recommendation: The Town should provide training to its employees, and/or contract with an independent party to reconcile the bank statements to the books on a monthly basis.

Responsible Official's Response: The Town will provide continuing education to train employees to correct this deficiency, and get the bank accounts reconciled.

2013-5 Budget

Condition: The Town did not approve a budget, nor file one with the State Auditor, for the fiscal year ended December 31, 2013, as required by Oklahoma statutes.

Criteria: Employees who are unqualified, or untrained, and/or lack the expertise to prepare and file a budget in accordance with state statutes.

Cause: The Town's limited size and staffing resources have made it difficult for management to provide sufficient training to employees.

Effect of Potential Effect: The Town is not in compliance with state statutes.

Recommendation: The Town should provide training to its employees, or contract with an independent party to prepare the annual budget on a timely basis.

Responsible Official's Response: The Town will prepare the budget on a timely basis.