

TOWN OF CALUMET, OKLAHOMA
ANNUAL FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2012

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**INDEPENDENT AUDITOR'S
REPORT**

DILLON & ASSOCIATES, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
1401 S DOUGLAS BLVD., SUITE A
MIDWEST CITY, OK 73130

ROBERT S. DILLON, CPA
bobdilloncpa@gmail.com

Phone: (405) 732-1800
Fax : (405) 737-7446

INDEPENDENT AUDITOR'S REPORT

Town Council
Town of Calumet
Calumet, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Calumet, Oklahoma (the Town), as of and for the year ended June 30, 2012, which collectively comprise the Town of Calumet's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The Town prepares its annual financial statements and schedules on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As further discussed in Note 1, to the financial statements, the Town has not maintained complete capital asset records to support the historical cost of past capital asset purchases. Accounting principles generally accepted in the United States of America require that capital assets be recorded at historical cost net of accumulated depreciation. Documentation supporting historical cost was not readily available for our review. Also, the Town has elected to not report depreciation on these capital assets. The amount by which this departure would affect assets, net assets, and expenses of the Governmental and Business-Type Activities is not readily determinable.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position-modified cash basis of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Calumet, Oklahoma, as of June 30, 2012 and the respective changes in financial position-modified cash basis and cash flows, thereof for the year then ended in conformity with the basis of accounting described above.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 27, 2012, on our consideration of the Town of Calumet's internal control over financial reporting and 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 compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The budgetary comparison information on page 24 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Town of Calumet has not presented the Management's Discussion and Analysis required by the Governmental Accounting Standards Board (GASB) and the GASB has determined is necessary to supplement, although not required to be a part of the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Calumet's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis and is not a required part of the basic financial statements. We subjected this information to the auditing procedures applied by us, in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Dillon & Associates, P.C.

Midwest City, Oklahoma
July 27, 2012

BASIC FINANCIAL STATEMENTS

Town of Calumet, Oklahoma
Statement of Net Assets - Modified Cash Basis
June 30, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Pooled cash and cash equivalents	\$ 1,936,660	146,672	2,083,332
Investments	-	-	-
Restricted assets:			
Restricted cash and investments	-	92,657	92,657
Total current assets	1,936,660	239,329	2,175,989
Noncurrent assets:			
Capital assets, net of accumulated depreciation	-	633,677	633,677
Total noncurrent assets	-	633,677	633,677
Total assets	1,936,660	873,006	2,809,666
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	8,534	10,060	18,594
Current portion of long-term obligations	-	25,000	25,000
Total current liabilities	8,534	35,060	43,594
Noncurrent liabilities:			
Customer deposits payable	-	17,293	17,293
Notes payable	-	375,000	375,000
Total noncurrent liabilities	-	392,293	392,293
Total liabilities	8,534	427,353	435,887
NET ASSETS			
Invested in capital assets, net of related debt	-	233,677	233,677
Restricted for:			
Debt service	-	75,364	75,364
Unrestricted	1,928,126	136,612	2,064,738
Total net assets	\$ 1,928,126	445,653	2,373,779

See accompanying notes to the basic financial statements.

Town of Calumet, Oklahoma
Statement of Activities - Modified Cash Basis
For the Year Ended June 30, 2012

	Expenses	Program Revenues		Net (Expense) Revenue	
		Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
PRIMARY GOVERNMENT					
Governmental activities:					
General government	\$ 229,637	2,278	-	14,500	(212,859)
Public safety	150,903	32,372	-	4,413	(114,118)
Public works	22,398	-	-	-	(22,398)
Culture and recreation	6,242	-	-	-	(6,242)
Total government activities	<u>409,180</u>	<u>34,650</u>	<u>-</u>	<u>18,913</u>	<u>(355,617)</u>
Business-type activities:					
Administration	110,710	-	-	5,096	(105,614)
Water and sewer	46,021	134,342	-	-	88,321
Sanitation	-	59,165	-	-	59,165
Other	-	4,943	-	-	4,943
Total business-type activities	<u>156,731</u>	<u>198,450</u>	<u>-</u>	<u>5,096</u>	<u>46,815</u>
Total primary government	<u>565,911</u>	<u>233,100</u>	<u>-</u>	<u>24,009</u>	<u>(308,802)</u>

Town of Calumet, Oklahoma
Statement of Activities - Modified Cash Basis
For the Year Ended June 30, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Change in net assets:			
Net (expense) revenue	\$ (355,617)	46,815	(308,802)
General revenues:			
Taxes:			
Sales and use	1,417,085	-	1,417,085
Franchise	50,839	-	50,839
Other	21,138	-	21,138
Unrestricted investment income	6,816	1,030	7,846
Miscellaneous	41,187	7,908	49,095
Transfers - internal activity	1,800	(1,800)	-
Total general revenues and transfers	<u>1,538,865</u>	<u>7,138</u>	<u>1,546,003</u>
Change in net assets	1,183,248	53,953	1,237,201
Net assets - beginning	<u>744,878</u>	<u>391,700</u>	<u>1,136,578</u>
Net assets - ending	<u>\$ 1,928,126</u>	<u>445,653</u>	<u>2,373,779</u>

See accompanying notes to the basic financial statements.

Town of Calumet, Oklahoma
Statement of Modified Cash Basis Assets, Liabilities and Net Assets
Governmental Funds
June 30, 2012

	General Fund	Cemetery Fund	Vehicle Implement Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,904,829	17,683	14,148	1,936,660
Investments	-	-	-	-
Total assets	1,904,829	17,683	14,148	1,936,660
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	8,534	-	-	8,534
Total liabilities (Note 2)	8,534	-	-	8,534
NET ASSETS				
Restricted	10,605	17,683	-	28,288
Committed	-	-	14,148	14,148
Unassigned	1,885,690	-	-	1,885,690
Total net assets	1,896,295	17,683	14,148	1,928,126
Total liabilities and net assets	\$ 1,904,829	17,683	14,148	
Amounts reported for governmental activities in the statement of net assets (Exhibit 1) are different because:				
None				-
Net assets of governmental activities				\$ 1,928,126

See accompanying notes to the basic financial statements.

Town of Calumet, Oklahoma
Statement of Cash Receipts, Cash Disbursements and Changes in Modified Cash Basis Fund Balances
Governmental Funds
For the Year Ended June 30, 2012

	General Fund	Cemetery Fund	Vehicle Implement Fund	Total Governmental Funds
CASH RECEIPTS				
Taxes	\$ 1,487,041	-	-	1,487,041
Intergovernmental	20,934	-	-	20,934
Licenses and permits	2,278	-	-	2,278
Charge for services	25,616	1,600	-	27,216
Fines and forfeitures	5,156	-	-	5,156
Interest	6,737	46	33	6,816
Miscellaneous	37,362	3,825	-	41,187
Total cash receipts	<u>1,585,124</u>	<u>5,471</u>	<u>33</u>	<u>1,590,628</u>
CASH DISBURSEMENTS				
Current:				
General government	229,637	-	-	229,637
Public safety	150,903	-	-	150,903
Public works	22,398	-	-	22,398
Culture and recreation	2,027	4,215	-	6,242
Capital outlay	-	-	-	-
Total cash disbursements	<u>404,965</u>	<u>4,215</u>	<u>-</u>	<u>409,180</u>
Excess (deficiency) of receipts over disbursements	<u>1,180,159</u>	<u>1,256</u>	<u>33</u>	<u>1,181,448</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	3,600	3,600
Transfers out	(1,800)	-	-	(1,800)
Total other financing sources and uses	<u>(1,800)</u>	<u>-</u>	<u>3,600</u>	<u>1,800</u>
Net change in fund balances	1,178,359	1,256	3,633	1,183,248
Fund balances - beginning	717,936	16,427	10,515	744,878
Fund balances - ending	<u>\$ 1,896,295</u>	<u>17,683</u>	<u>14,148</u>	<u>1,928,126</u>

See accompanying notes to the basic financial statements.

Town of Calumet, Oklahoma
Reconciliation of the Statement of Cash Receipts,
Cash Disbursements and Changes in Modified Cash Basis Fund Balances of
Governmental Funds to the Statement of Activities - Modified Cash Basis
For the Year Ended June 30, 2012

Net change in fund balances - total governmental funds	\$ 1,183,248
None	<u>-</u>
Change in net assets of governmental activities.	<u><u>\$ 1,183,248</u></u>

Town of Calumet, Oklahoma
Statement of Modified Cash Basis Assets, Liabilities and Net Assets
Proprietary Funds
June 30, 2012

	Business-type Activities - Enterprise Funds		
	Calumet Public Works Authority	Meter Deposit Fund	Total Enterprise Funds
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	\$ 141,963	4,709	146,672
Restricted assets - cash and investments	75,364	17,293	92,657
Total current assets	<u>217,327</u>	<u>22,002</u>	<u>239,329</u>
Non-current assets:			
Bond issuance costs, net of accumulated amortization	-	-	-
Capital assets, net of accumulated depreciation	633,677	-	633,677
Total non-current assets	<u>633,677</u>	<u>-</u>	<u>633,677</u>
 Total assets	 <u>851,004</u>	 <u>22,002</u>	 <u>873,006</u>
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable	10,060	-	10,060
Current portion of long-term obligations	25,000	-	25,000
Total current liabilities	<u>35,060</u>	<u>-</u>	<u>35,060</u>
Non-current liabilities:			
Customer deposits payable	-	17,293	17,293
Notes payable	375,000	-	375,000
Total non-current liabilities	<u>375,000</u>	<u>17,293</u>	<u>392,293</u>
 Total liabilities	 <u>410,060</u>	 <u>17,293</u>	 <u>427,353</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	233,677	-	233,677
Restricted:			
Debt service	75,364	-	75,364
Unrestricted	131,903	4,709	136,612
 Total net assets	 <u>\$ 440,944</u>	 <u>4,709</u>	 <u>445,653</u>

See accompanying notes to the basic financial statements.

Town of Calumet, Oklahoma
Statement of Cash Receipts, Cash Disbursements
and Changes in Modified Cash Basis Net Assets
Proprietary Funds
For the Year Ended June 30, 2012

	Business-type Activities - Enterprise Funds		
	Calumet	Meter	Total
	Public Works	Deposit	Enterprise
	<u>Authority</u>	<u>Fund</u>	<u>Funds</u>
<u>OPERATING CASH RECEIPTS:</u>			
Charges for services			
Water	\$ 93,210	-	93,210
Sewer	41,132	-	41,132
Sanitation	59,165	-	59,165
Other	4,943	-	4,943
Total operating cash receipts	198,450	-	198,450
<u>OPERATING CASH DISBURSEMENTS:</u>			
General and administration	110,710	-	110,710
Water and sewer	26,379	-	26,379
Total operating cash disbursements	137,089	-	137,089
Operating income (loss)	61,361	-	61,361
<u>NONOPERATING RECEIPTS (DISBURSEMENTS):</u>			
Project expenditures	-	-	-
Miscellaneous revenues	7,908	-	7,908
Grant income	5,096	-	5,096
Interest income	862	168	1,030
Interest expense and fiscal charges	(19,642)	-	(19,642)
Total nonoperating receipts (disbursements)	(5,776)	168	(5,608)
<u>OPERATING TRANSFERS</u>			
Transfers in	-	-	-
Transfers out	(1,800)	-	(1,800)
Total operating transfers	(1,800)	-	(1,800)
Change in net assets	53,785	168	53,953
Net assets - beginning	387,159	4,541	391,700
Net assets - ending	\$ 440,944	4,709	445,653

See accompanying notes to the basic financial statements.

Town of Calumet, Oklahoma
Statement of Cash Flows - Modified Cash Basis
Proprietary Funds
For the Year Ended June 30, 2012

	Business-type Activities - Enterprise Funds		
	Calumet	Meter	Total
	Public Works <u>Authority</u>	Deposit <u>Fund</u>	Enterprise <u>Funds</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Receipts from customers	\$ 198,450	661	199,111
Payments to suppliers	(138,090)	-	(138,090)
Payments to employees	-	-	-
Net cash provided (used) by operating activities	<u>60,360</u>	<u>661</u>	<u>61,021</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>			
Miscellaneous revenues	13,004	-	13,004
Operating transfers in (out)	(1,800)	-	(1,800)
Net cash provided (used) by noncapital financing activities	<u>11,204</u>	<u>-</u>	<u>11,204</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>			
Principal paid on long-term debt	(25,000)	-	(25,000)
Interest expense and fiscal charges	(19,642)	-	(19,642)
Decrease (increase) in restricted assets	254	(661)	(407)
Net cash provided (used) by capital and related financing activities	<u>(44,388)</u>	<u>(661)</u>	<u>(45,049)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Interest received	862	168	1,030
Net cash provided (used) by investing activities	<u>862</u>	<u>168</u>	<u>1,030</u>
Net increase (decrease) in cash and cash equivalents	28,038	168	28,206
Cash and cash equivalents, beginning of the year	113,925	4,641	118,566
Cash and cash equivalents, end of the year	<u>\$ 141,963</u>	<u>4,809</u>	<u>146,772</u>
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</u>			
Operating income (loss)	61,361	-	61,361
Adjustments to reconcile operating income to net cash provided by operating activities:			
Cash flows reported in other categories:			
Change in assets and liabilities:			
Accounts payable and accrued expenses	(1,001)	661	(340)
Total adjustments	<u>(1,001)</u>	<u>661</u>	<u>(340)</u>
Net cash provided by (used in) operating activities	<u>\$ 60,360</u>	<u>661</u>	<u>61,021</u>

See accompanying notes to the basic financial statements.

**NOTES TO BASIC
FINANCIAL STATEMENTS**

Town of Calumet, Oklahoma
Notes to Basic Financial Statements
June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.A. - REPORTING ENTITY

The Town of Calumet, Oklahoma's (the Town) financial reporting entity includes the primary government and its blended component unit. This report includes all activities for which the Town Council is fiscally responsible. In determining the reporting entity, the Town complies with the provisions of Governmental Accounting Standards Board Statement Nos. 14, *The financial Reporting Entity*, and includes all component units for which the Town is financially accountable.

The Town of Calumet, Oklahoma (the Town) was established in 1893 and operates under a council-mayor form of government under Title 11 of the *Oklahoma Statutes*. The Town provides the following services to its citizens: public safety (police and fire), public works (streets and cemetery), culture and recreation, general government and administration, along with utility services to include water, wastewater, and sanitation.

Blended component unit. The Calumet Public Works Authority (CPWA) serves all the citizens of the Town and is governed by a board comprised of the Town's elected council (Trustees). The rates for user charges and debt authorization are approved by the town council. The CPWA was created May 28, 1986, to finance, develop, and operate the water, wastewater, and solid waste activities of the Town. The CPWA is reported as an enterprise fund type.

The component unit is a Public Trust established pursuant to Title 60 of Oklahoma State law. Public Trusts (Authorities) have no taxing power. The Authorities are generally created to finance Town services through issuance of revenue bonds or other non-general obligation debt and to enable the Town Council to delegate certain functions to the governing body (Trustees) of the Authority. The Authorities generally retain title to assets which are acquired or constructed with Authority debt or other Authority generated revenues. In addition, the Town has leased certain existing assets at the creation of the Authority to the Trustees on a long-term basis. The Town, as beneficiary of the Public Trust, receives title to any residual assets when the Public Trust is dissolved.

1.B. - BASIS OF PRESENTATION AND ACCOUNTING

The Town's basic financial statements consist of government-wide statements, including a statement of net assets, and a statement of activities, and fund financial statements, which provide a more detailed level of financial statement information. Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting.

Town of Calumet, Oklahoma
Notes to Basic Financial Statements
June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

1.B. - BASIS OF PRESENTATION AND ACCOUNTING - Continued

Government-wide Financial Statements - The statement of net assets and the statement of activities are reported on a modified cash basis of accounting. The modified cash basis of accounting is based on the recording of cash and cash equivalents and changes therein, and only recognizes revenues, expenses, assets and liabilities resulting from cash transactions adjusted for modifications that have substantial support in generally accepted accounting principles. These modifications include adjustments for the following balances arising from cash transactions:

- Capital assets and the depreciation of those assets, where applicable
- Long-term debt
- Cash-based interfund receivables and payables
- Other cash-based receivables/payables
- Investments

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue billed or provided services not yet collected, and accrued revenue and receivables) and certain liabilities and their related expenses (such as accounts payable and expenses for goods and services received but not yet paid, and accrued expenses and liabilities) are not recorded in the financial statements.

As a result of the Town's use of the modified cash basis of accounting, accrued liabilities related to compensated absences (vacation and sick leave) and compensatory time earned but unpaid at year-end, and any employer-related costs earned and unpaid, are not reflected in the financial statements as liabilities, but are normally reported as a commitment disclosure. However, the Town has not maintained current records to be able to identify the compensated absence obligation for disclosure purposes at June 30, 2012.

Program revenues within the statement of activities 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:

- General government: License and permits, cemetery fees, operating and capital grants and contributions
- Public safety: Fine revenue, operating and capital grants and contributions
- Administration: Operating and capital grants and contributions
- Water and sewer: Utility charges
- Sanitation: Utility charges

For business-type activities, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied as they apply to the modified cash basis, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Town of Calumet, Oklahoma
Notes to Basic Financial Statements
June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

1.B. - BASIS OF PRESENTATION AND ACCOUNTING - Continued

Governmental Funds:

The Town's governmental funds comprise of the following:

Major Fund:

- General Fund - accounts for all activities not accounted for in other special-purpose funds.
- Cemetery Fund - accounts for cemetery revenues and expenses.
- Vehicle Implement Fund - accounts for capital expenditures related to vehicles and machinery.

The governmental funds are reported on a modified cash basis of accounting and current financial resources measurement focus. Only current financial assets and liabilities are generally included on the fund balance sheets. The operating statements present sources and uses of available spendable financial resources during a given period. The fund financial statements use fund balance as their measure of available spendable financial resources at the end of the period. The reconciliation of the governmental funds financial statement to the governmental activities presentation in the government-wide financial statements is the result of the use of the economic resources measurement focus at the government-wide level.

Proprietary Fund:

The Town's proprietary fund is comprised of the following:

- Calumet Public Works Authority (CPWA) - accounts for the operation of the water, sewer and sanitation activities.

The proprietary fund is reported on a modified cash basis, as defined above, and economic resources measurement focus. Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied as they apply to the modified cash basis, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

For purposes of the statement of revenues, expenses and changes in fund net assets, operating revenues and expenses are considered those whose cash flows are related to operating activities, while revenues and expenses related to financing, capital and investing activities are reported as non-operating or transfers and contributions.

Town of Calumet, Oklahoma
Notes to Basic Financial Statements
June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

1.C. - CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash and cash equivalents include all demand and savings accounts, certificates of deposit or short-term investments with an original maturity of three months or less, and money market accounts. Investments consist of long-term certificates of deposits and are reported at cost.

1.D. - CAPITAL ASSETS

Expenditures for property and equipment for governmental and proprietary funds are recorded as fund expenditures. The Town has not maintained detail fixed asset records as required by generally accepted accounting principles.

The Town carries a balance on CPWA's statement of assets, liabilities and fund balance for capital assets in the amount of \$633,677. This represents assets purchased with the proceeds of a prior bond issuance. No depreciation has been recorded.

1.E. - LONG-TERM DEBT

Accounting treatment of long-term debt varies depending upon whether the source of repayment is from governmental fund types or proprietary fund type resources and whether they are reported in the government-wide or fund financial statements. All long-term debt resulting from cash transactions to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. 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 principal and interest are reported as expenditures. The accounting for proprietary fund is the same in the fund financial statement as it is in the government-wide financial statements.

1.F. - COMPENSATED ABSENCES

As a result of the use of the modified cash basis of accounting, liabilities related to compensated absences are not recorded in the financial statements. Expenditures related to compensated absences are recorded when paid.

1.G. - FUND BALANCES AND NET ASSETS

Fund Balances:

Governmental fund equity is classified as fund balance. The Town has implemented GASB Statement 54, fund balance is further classified as nonspendable, restricted, committed, assigned and unassigned. These classifications are defined as:

- a. Nonspendable - includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Town of Calumet, Oklahoma
Notes to Basic Financial Statements
June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

1.G. - FUND BALANCES AND NET ASSETS - Continued

b. Restricted - consists of fund balance with constraints placed on the use of resources either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) laws through constitutional provisions or enabling legislation.

c. Committed - includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision-making authority. The Town's highest level of decision-making authority is made by ordinance while the CPWA's highest level of decision-making authority is made by resolution.

d. Assigned - includes amounts that are constrained by the Town's intent to be used for specific purposes but are neither restricted nor committed. Assignments of fund balance may be made by Town Board action or management decision when the Town Board has delegated that authority. Assignments for transfers and interest income for governmental funds are made through budgetary process.

e. Unassigned - represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the general fund.

It is the Town's policy to first use restricted fund balance prior to the use of unrestricted fund balance when an expense is incurred for purposes for which both restricted and unrestricted fund balances are available. The Town's policy for the use of unrestricted fund balance amounts require that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used. The only exception to this policy is for assigned interest income in governmental funds other than the General Fund to be spent prior to restricted fund balance. In those funds, interest income is used first before other revenues.

Net Assets:

Net assets are displayed in three components:

a. *Invested in capital assets, net of related debt* - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributed to the acquisition, construction, or improvements of those assets.

b. *Restricted net assets* - Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.

Town of Calumet, Oklahoma
Notes to Basic Financial Statements
June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

1.G. - FUND BALANCES AND NET ASSETS - Continued

c. *Unrestricted net assets* - All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

It is the Town’s policy to first use restricted net assets prior to the use of unrestricted net assets when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

1.H. - INTERNAL AND INTERFUND BALANCES AND TRANSFERS

The Town’s policy is to eliminate interfund transfers and balances in the statement of activities and net assets to avoid the grossing up of balances. Only the residual balances transferred between governmental and business-type activities are reported as internal transfers and internal balances then offset in the total column in the government-wide financial statements. Internal transfers and balances between funds are not eliminated in the fund financial statements.

1.H. - USE OF ESTIMATES

Certain estimates are made in the preparation of the financial statements. Estimates are based on management’s best judgments and may vary from actual results.

NOTE 2 - DETAILED NOTES CONCERNING THE FUNDS

The following notes present detailed information to support the amounts reported in the basic financial statements for the Town’s various assets, liabilities, net assets/fund balances, revenues and expenditures/expenses.

2.A. - CASH, CASH EQUIVALENTS, AND INVESTMENTS

For the year ended June 30, 2012 the Town recognized \$7,846 of investment income. Due to the minimal rates of returns on allowable investments in the current environment, most of the Town’s deposits are in demand and short-term time deposits.

Town of Calumet, Oklahoma
Notes to Basic Financial Statements
June 30, 2012

NOTE 2 - DETAILED NOTES CONCERNING THE FUNDS - Continued

2.A. - CASH, CASH EQUIVALENTS, AND INVESTMENTS - Continued

At June 30, 2012, the primary government held the following deposits and investments:

Deposits:	Carrying Value
Demand deposits	\$ 2,083,332
Time deposits	<u>0</u>
Total deposits and investments	<u>\$ 2,083,332</u>

Reconciliation to Statement of Net Assets:

Cash and cash equivalents	\$ 2,083,332
Investments	<u>0</u>
	<u>\$ 2,083,332</u>

Custodial Credit Risk

At June 30, 2011, the City held deposits of approximately \$2,120,366 at financial institutions. The City's cash deposits, including interest-bearing certificates of deposit, are entirely covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with the securities held by the Town or by its agent in the City's name.

Investment Interest Credit Risk

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

Town of Calumet, Oklahoma
Notes to Basic Financial Statements
June 30, 2012

NOTE 2 - DETAILED NOTES CONCERNING THE FUNDS - Continued

2.A. - CASH, CASH EQUIVALENTS, AND INVESTMENTS - Continued

Investment Credit Risk

The City has no policy that limits its investment choice other than the limitation of the 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 deposits 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 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 Federal Housing Administrator, and obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraph (a.-d.).

Concentration of Investment Credit Risk

The City places no limit on the amount it may invest in any one issuer.

2.B. - RESTRICTED ASSETS

The Calumet Public Works Authority OWRB Promissory Note, Series 2004 include restricted cash and investments for a debt service fund for repayment of the principal and interest when due, and a debt service reserve to be used for payment of principal and interest provided sufficient funds are not available in the debt service fund. All funds are on deposit with trustee banks.

OWRB Promissory Note, Series 2004 :

Debt service	\$ 26,967
Debt service reserve	48,397
Total restricted assets	<u>\$ 75,364</u>

Town of Calumet, Oklahoma
Notes to Basic Financial Statements
June 30, 2012

NOTE 2 - DETAILED NOTES CONCERNING THE FUNDS - Continued

2.C. - DEPOSITS SUBJECT TO REFUND

Utility customers are required to make a meter deposit, which is refunded upon the customer's termination of services, provided there are no outstanding bills. Monies are deposited in a separate account totaled \$22,002 as June 30, 2012. The Town has not maintained a complete record of amounts of deposits due to utility customers.

Appearance bonds and other payments made to the municipal court funds are held until final disposition by the court at which time they are refunded to the bondholder or paid over to the Town general fund as fines. As of June 30, 2012, \$0 was being held that was subject to refund.

2.D. - LONG-TERM DEBT

Long-term liabilities of the Town of Calumet as of June 30, 2012, are as summarized as follows:

Business-type activities

Installments of \$10,000 to \$40,000 through September 1, 2023,
 With interest ranging from 1.245% to 4.745%, secured by a pledge
 on the utility distribution and collection assets and a year to year
 pledge of the Town's sales tax.

\$ 400,000

Long-term liabilities transactions for the year ended June 30, 2012, and changes therein were as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balance</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Business-type activities					
Notes payable:					
OWRB	\$ 425,000	-	25,000	400,000	25,000
Total business-type activities	\$ <u>425,000</u>	<u>-</u>	<u>25,000</u>	<u>400,000</u>	<u>25,000</u>

Town of Calumet, Oklahoma
Notes to Basic Financial Statements
June 30, 2012

2.D. - LONG-TERM DEBT - Continued

Annual debt service requirements, including principal and interest to maturity for long-term debt at June 30, 2012 are as follows:

Year Ending June 30,	<u>Governmental Activities</u>		<u>Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ -	-	25,000	16,542
2014	-	-	30,000	15,565
2015	-	-	30,000	14,448
2016	-	-	30,000	13,287
2017	-	-	30,000	12,081
2018-2022	-	-	175,000	39,287
2023-2027	-	-	80,000	3,776
Totals	\$ -	-	400,000	114,986

2.E. - INTERFUND TRANSACTIONS

The composition of interfund balances as of June 30, 2012, is as follows:

Interfund transactions:

	<u>Transfers In</u>			<u>Total</u>
	<u>General Fund</u>	<u>Nonmajor Governmental</u>	<u>Calumet Public Works Authority</u>	
Transfer out:				
General fund	\$ -	-	-	-
Nonmajor governmental	1,800	-	1,800	3,600
Calumet Public Works Auth.	-	-	-	-
Totals	\$ 1,800	-	1,800	3,600

Town of Calumet, Oklahoma
Notes to Basic Financial Statements
June 30, 2012

NOTE 3 - OTHER INFORMATION

3.A. RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town has insurance for the major risks such as property, general liability and worker's compensation. Judgments against the Town may be paid by a property tax assessment over a three-year period.

<u>Type of Loss</u>	<u>Method Managed</u>	<u>Risk of Loss Retained</u>
Torts, error, and omissions	Purchased commercial insurance	None
Workers compensation	Purchased commercial insurance	None
Physical property loss and natural disasters	Purchased commercial insurance	None

3.B. CONTINGENT LIABILITIES

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

At June 30, 2012 the Town is party to legal proceedings which normally occur in governmental operations. The legal proceedings are not likely to have a material adverse impact on the affected funds of the Town.

Town of Calumet, Oklahoma
Notes to Basic Financial Statements
June 30, 2012

3.C. EMPLOYEE RETIREMENT SYSTEM AND PENSION PLAN

The Town of Calumet participates in the Oklahoma State Firefighters' Pension and Retirement System, which is cost-sharing multiple-employer defined benefit pension plans administered by the State of Oklahoma.

Oklahoma State Firefighters' Pension and Retirement System (OFPRS)

Plan Description - The OFPRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The ability to establish and amend benefit provisions is delegated to the administrators of the OFPRS. The OFPRS issues a publicly available financial report that includes financial statements and required supplementary information for the fire fighting employees of the Town. That report may be obtained by writing to the Oklahoma State Firefighters' Pension and Retirement System, 4545 North Lincoln Boulevard, Suite 265, Oklahoma Town, Oklahoma 73105, or by calling 1-405-525-7813.

Funding Policy - The Town of Calumet contributes \$60 per volunteer firefighter.

3.D. COMPLIANCE WITH BOND INDENTURE

The note indenture requires the Authority to maintain the net revenue available for debt service of at least 1.25 times the maximum annual amount to be paid into the Sinking Fund. The amount available is computed as follows:

Gross revenue available for debt service :	
Pledged sales tax	\$ 1,323,386
System-wide Gross Revenues - Water & Wastewater	134,342
System-wide Operating Expense - Exclusive of capital improvements, debt service and depreciation	
Water and wastewater	<u>(137,089)</u>
Net revenues available for debt service	<u>\$ 1,186,297</u>
Annual amount to be paid into Sinking Fund	<u>\$ 46,111</u>
Coverage	<u>25.73</u>
Coverage requirement	<u>1.25</u>

**REQUIRED SUPPLEMENTARY
INFORMATION**

Town of Calumet, Oklahoma
Statement of Cash Receipts, Cash Disbursements and Change
in Modified Cash Basis Fund Balance - Budget and Actual
General Fund
For the Year Ended June 30, 2012

	Budget		Actual Amounts	Variance with Final Budget Over
	<u>Original</u>	<u>Final</u>		<u>(Under)</u>
REVENUES				
Taxes	\$ 558,461	558,461	1,487,041	928,580
Intergovernmental	-	-	20,934	20,934
Licenses and permits	-	-	2,278	2,278
Charge for services	13,165	13,165	25,616	12,451
Fines and forfeitures	2,746	2,746	5,156	2,410
Interest	5,522	5,522	6,737	1,215
Miscellaneous	7,356	7,356	37,362	30,006
Total revenues	<u>587,250</u>	<u>587,250</u>	<u>1,585,124</u>	<u>997,874</u>
EXPENDITURES				
General government:				
General government	282,000	282,000	229,637	52,363
Public safety	91,000	91,000	150,903	(59,903)
Public works	29,000	29,000	22,398	6,602
Culture and recreation	1,000	1,000	2,027	(1,027)
Capital outlay	-	-	-	-
Total expenditures	<u>403,000</u>	<u>403,000</u>	<u>404,965</u>	<u>(1,965)</u>
Excess (deficiency) of revenues over (under) expenditures	184,250	184,250	1,180,159	995,909
OTHER FINANCING SOURCES (USES)				
Transfers	<u>(1,800)</u>	<u>(1,800)</u>	<u>(1,800)</u>	<u>-</u>
Net change in fund balances	182,450	182,450	1,178,359	995,909
Fund balances - beginning	717,936	717,936	717,936	-
Fund balances - ending	<u>\$ 900,386</u>	<u>900,386</u>	<u>1,896,295</u>	<u>995,909</u>

See accompanying notes to the basic financial statements.

Town of Calumet, Oklahoma
Notes to Required Supplemental Information
For the Year Ended June 30, 2012

BUDGETARY INFORMATION

The Town prepares its annual operating budget under the provisions of Titles 62 and 68 of the Oklahoma Statutes (Estimated of Needs). In accordance with those provisions, the following process is used to adopt the annual budget:

- In the first week of August, a financial statement is prepared on State prescribed forms for use in determining cash surplus of the General Fund and other “cash” Funds of the Town.
- Using the State prescribed forms, an estimate of appropriation needs of the General Fund is prepared which is limited to no more than 90% of prior year actual recurring revenue plus cash surplus.
- The estimate of need forms are approved by the Town Board of Trustees and submitted to the County Excise Board in August.
- The budget for the General Fund becomes final upon County Excise Board approval.

The General Fund, Debt Service Fund and certain “cash” funds as defined by state law are required to have annual budgets, except funds of public trusts or authorities. The legal level of control at which expenditures may not legally exceed appropriations is the object category level by department within a fund. State statutes recognize the following object categories as minimum legal level of control by department:

- Personal Services
- Maintenance and Operations
- Capital Outlay
- Interfund Transfers

All transfers of appropriations between departments and object categories require approval of the Town Council, and all supplemental appropriations require the approval of the Town Council and the County Excise Board. The budgets for the Special Revenue funds must be submitted on an as needed basis. The Town can only appropriate the cash balance on hand at the beginning of the fiscal year and monies as they are actually received.

The budgetary comparison schedules are reported on a non-GAAP budgetary basis that report revenues on a cash basis and expenditures on a cash basis modified for encumbrances.

**OTHER SUPPLEMENTARY
INFORMATION**

DILLON & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS
1401 S DOUGLAS BLVD., SUITE A
MIDWEST CITY, OK 73130

ROBERT S. DILLON, CPA
bobdilloncpa@gmail.com

Phone: (405) 732-1800
Fax : (405) 737-7446

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

Honorable Mayor and City Council Members
Town of Calumet, Oklahoma

We have audited the modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Calumet, as of and for the year ended June 30, 2012, which collectively comprise the Town of Calumet's basic financial statements and have issued our report thereon dated July 27, 2012. The report on the Town was qualified due to the Town's use of a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The Management Discussion and Analysis is not presented as required by the Governmental Accounting Standards Board. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Town of Calumet's internal control over financial reporting as a basis for our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of Calumet's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Calumet's internal control over financial reporting.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

A *control deficiency* 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town of Calumet, ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town of Calumet's financial statements that is more than inconsequential will not be prevented or detected by the Town of Calumet's

internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as Findings 2012-01, 2012-02, 2012-03 and 2012-04 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town of Calumet internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We believe all of the significant deficiencies described in the accompanying Schedule of Reportable Findings and Responses to be material weaknesses in internal control over financial reporting.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Calumet financial statements 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Town of Calumet's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Town's responses and, accordingly, express no opinion on them.

This report is intended solely for the information and use of the Town Council and management of the Town of Calumet, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Dillon & Associates, P.C.

Midwest City, Oklahoma
July 27, 2012

**TOWN OF CALUMET, OKLAHOMA
SCHEDULE OF REPORTABLE FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012**

Finding 2012-01 - General Ledger Control of Supplemental Information (Repeat Finding)

Criteria - An entity should maintain general ledger control over all significant accounts and transactions. Such accounts should be reconciled to supporting details periodically.

Condition - The Town does not maintain general ledger control over the following:

1. Capital Assets and related Accumulated Depreciation
2. Investments held with Bond Trustees
3. Utility customer accounts receivables

Cause - The Town relies on spreadsheets, subsidiary schedules and yearend adjustments to account for this activity.

Effect - The effect on the financial statements prior to the required audit adjustments are that significant account balances and transactions are not reflected in the Town's accounting records. In addition, the risk that errors could occur and not be detected in a timely manner is increased significantly.

Management's Response - The Town agrees but limited staff prevents implementation.

Finding 2012-02 - Reliance on Auditing Firm (Repeat Finding)

Criteria - The Town relies on the audit firm to prepare draft financial statements and proposed accrual entries for their review and approval.

Cause - The Town lacks individuals qualified or trained with skills necessary to prepare the annual financial statements.

Effect - The lack of qualified and trained individuals creates an internal control deficiency over financial reporting.

Management's Response - The Town has reviewed the costs and benefits of preparing the financial statements internally and has elected to continue the current process of having draft financial statements prepared by the audit firm.

Finding 2012-03 - Segregation of Duties (Repeat Finding)

Criteria - The Town should maintain appropriate segregation of duties to the extent that resources allow for it.

Condition - The Town did not have adequate segregation of duties during the period under audit for certain control functions related to cash deposits, disbursements and bank reconciliations, and did not take steps to provide for compensating controls.

**TOWN OF CALUMET, OKLAHOMA
SCHEDULE OF REPORTABLE FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012**

Cause - The bank reconciliations are being performed by the same individual responsible for making daily deposits, processing accounts payable and is a signor on the bank checking account.

Effect - Material misstatements, including misstatements due to error and fraud, could occur and go undetected for a considerable period of time.

Management's Response - The Town concurs with the finding and is monitoring the internal controls to extent possible.

Finding 2012-04 - Basis of Accounting (Repeat Finding)

Criteria - General accepted accounting principles require municipalities to use the modified accrual basis of accounting to present their financial statements.

Condition - The Town of Calumet has prepared their financial statements using a modified cash basis of accounting excluding all accruals with the exception of accounts payable.

Cause - The Town of Calumet does not record their transactions on an accrual basis as they are incurred. Additional financial accruals have also been omitted from the financial statements.

Effect - Financial statements present only the transactions related to cash transactions and accounts payable. Transactions related to accounts receivable and other potential liabilities and assets are recorded in the period when the cash is received.

Recommendation - The Town of Calumet and the Calumet Public Works Authority should consider adopting a modified accrual basis of accounting.

Town's Response - We are reviewing the cost and benefits of implementing a modified accrual basis of accounting system.

Town of Calumet, Oklahoma
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS - THROUGH GRANTOR NUMBER	PROGRAM OR AWARD AMOUNT	EXPENDITURES
<u>FEDERAL PROGRAMS</u>				
<u>U.S. Department of Housing and Urban Development</u>				
Passed through Oklahoma Department of Commerce:				
Community Development Block Grant	14.228	14813 CIP 11	\$ 14,500	14,500
Total Federal Assistance			14,500	14,500
 <u>STATE PROGRAMS</u>				
<u>State of Oklahoma</u>				
Oklahoma Department of Agriculture				
Rural Fire Program			4,413	4,413
Passed through the Association of Central				
Oklahoma Governments (ACOG) :				
Rural Economic Development Plan		2010 REAP Fund	31,141	5,096
Total State Assistance			\$ 35,554	9,509