

TOWN OF CALUMET, OKLAHOMA
ANNUAL FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2013

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**INDEPENDENT AUDITOR'S
REPORT**

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INDEPENDENT AUDITOR'S REPORT

Town Council
Town of Calumet
Calumet, Oklahoma

Report on the Financial Statements

We have audited the accompanying 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, Oklahoma (the Town), as of and for the year ended June 30, 2013, which collectively comprise the Town of Calumet'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 the modified cash basis of accounting described in Note 1. This includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the presentation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 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 Town'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 Town's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Qualified Opinion

As 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 position, and expenses of the Governmental and Business-Type Activities is not readily determinable.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, 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, 2013 and the respective changes in modified cash basis financial position and where applicable, cash flows thereof for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information

The budgetary comparison information on page 25 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 27, 2013 on our consideration of the Town of Calumet's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Town of Calumet's internal control over financial reporting and compliance.

Dillon & Associates, P.C.

Midwest City, Oklahoma
July 27, 2013

BASIC FINANCIAL STATEMENTS

Town of Calumet, Oklahoma
Statement of Net Position - Modified Cash Basis
June 30, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Pooled cash and cash equivalents	\$ 3,738,284	74,988	3,813,272
Investments	-	-	-
Restricted assets:			
Restricted cash and investments	-	154,315	154,315
Total current assets	<u>3,738,284</u>	<u>229,303</u>	<u>3,967,587</u>
Noncurrent assets:			
Capital assets, net of accumulated depreciation	-	633,677	633,677
Total noncurrent assets	<u>-</u>	<u>633,677</u>	<u>633,677</u>
Total assets	<u>3,738,284</u>	<u>862,980</u>	<u>4,601,264</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	15,244	19,385	34,629
Current portion of long-term obligations	-	30,000	30,000
Total current liabilities	<u>15,244</u>	<u>49,385</u>	<u>64,629</u>
Noncurrent liabilities:			
Customer deposits payable	-	18,099	18,099
Notes payable	-	345,000	345,000
Total noncurrent liabilities	<u>-</u>	<u>363,099</u>	<u>363,099</u>
Total liabilities	<u>15,244</u>	<u>412,484</u>	<u>427,728</u>
NET POSITION			
Net investment in capital assets	-	258,677	258,677
Restricted for:			
Emergency	924,062	-	924,062
Special purposes	75,884	-	75,884
Capital improvements	-	64,714	64,714
Debt service	-	71,502	71,502
Unrestricted	2,723,094	55,603	2,778,697
Total net position	<u>\$ 3,723,040</u>	<u>450,496</u>	<u>4,173,536</u>

See accompanying notes to the basic financial statements.

Town of Calumet, Oklahoma
Statement of Activities - Modified Cash Basis
For the Year Ended June 30, 2013

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
PRIMARY GOVERNMENT				
Governmental activities:				
General government	\$ 268,740	3,356	-	(265,384)
Public safety	180,394	4,969	13,896	(161,529)
Public works	9,373	-	-	(9,373)
Culture and recreation	12,969	-	-	(12,969)
Total government activities	<u>471,476</u>	<u>8,325</u>	<u>13,896</u>	<u>(449,255)</u>
Business-type activities:				
Administration	153,438	-	-	(153,438)
Water and sewer	56,268	135,505	-	79,237
Sanitation	-	64,129	-	64,129
Other	-	3,886	-	3,886
Total business-type activities	<u>209,706</u>	<u>203,520</u>	<u>-</u>	<u>(6,186)</u>
Total primary government	<u>681,182</u>	<u>211,845</u>	<u>13,896</u>	<u>(455,441)</u>

Town of Calumet, Oklahoma
Statement of Activities - Modified Cash Basis
For the Year Ended June 30, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Change in Net Position:			
Net (expense) revenue	\$ (449,255)	(6,186)	(455,441)
General revenues:			
Taxes:			
Sales and use	2,130,181	-	2,130,181
Franchise	17,331	-	17,331
Other	33,159	-	33,159
Unrestricted investment income	10,020	520	10,540
Miscellaneous	51,678	12,309	63,987
Transfers - internal activity	1,800	(1,800)	-
Total general revenues and transfers	<u>2,244,169</u>	<u>11,029</u>	<u>2,255,198</u>
Change in net position	1,794,914	4,843	1,799,757
Net position - beginning	<u>1,928,126</u>	<u>445,653</u>	<u>2,373,779</u>
Net position - ending	<u>\$ 3,723,040</u>	<u>450,496</u>	<u>4,173,536</u>

See accompanying notes to the basic financial statements.

Town of Calumet, Oklahoma
Statement of Modified Cash Basis Assets, Liabilities and Net Position
Governmental Funds
June 30, 2013

	General Fund	Cemetery Fund	Vehicle Implement Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 3,711,807	8,698	17,779	3,738,284
Investments	-	-	-	-
Total assets	3,711,807	8,698	17,779	3,738,284
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	15,244	-	-	15,244
Total liabilities (Note 2)	15,244	-	-	15,244
Net Position				
Restricted	973,469	8,698	-	982,167
Committed	-	-	17,779	17,779
Unassigned	2,723,094	-	-	2,723,094
Total Net Position	3,696,563	8,698	17,779	3,723,040
Total liabilities and Net Position	\$ 3,711,807	8,698	17,779	
Amounts reported for governmental activities in the statement of Net Position (Exhibit 1) are different because:				
None				-
Net position of governmental activities				\$ 3,723,040

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, 2013

	General Fund	Cemetery Fund	Vehicle Implement Fund	Total Governmental Funds
CASH RECEIPTS				
Taxes	\$ 2,180,671	-	-	2,180,671
Intergovernmental	13,896	-	-	13,896
Licenses and permits	3,356	-	-	3,356
Charge for services	400	-	-	400
Fines and forfeitures	4,569	-	-	4,569
Interest	9,970	19	31	10,020
Miscellaneous	47,713	3,965	-	51,678
Total cash receipts	<u>2,260,575</u>	<u>3,984</u>	<u>31</u>	<u>2,264,590</u>
CASH DISBURSEMENTS				
Current:				
General government	268,740	-	-	268,740
Public safety	180,394	-	-	180,394
Public works	9,373	-	-	9,373
Culture and recreation	-	12,969	-	12,969
Capital outlay	-	-	-	-
Total cash disbursements	<u>458,507</u>	<u>12,969</u>	<u>-</u>	<u>471,476</u>
Excess (deficiency) of receipts over disbursements	<u>1,802,068</u>	<u>(8,985)</u>	<u>31</u>	<u>1,793,114</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	1,800,268	(8,985)	3,631	1,794,914
Fund balance - beginning	1,896,295	17,683	14,148	1,928,126
Fund balance - ending	<u>\$ 3,696,563</u>	<u>8,698</u>	<u>17,779</u>	<u>3,723,040</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, 2013

Net change in fund balances - total governmental funds	\$ 1,794,914
None	<u>-</u>
Change in net position of governmental activities.	<u>\$ 1,794,914</u>

Town of Calumet, Oklahoma
Statement of Modified Cash Basis Assets, Liabilities and Net Position
Proprietary Funds
June 30, 2013

	Business-type Activities - Enterprise Funds		
	Calumet Public Works Authority	Meter Deposit Fund	Total Enterprise Funds
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 70,557	4,431	74,988
Restricted assets - cash and investments	136,216	18,099	154,315
Total current assets	<u>206,773</u>	<u>22,530</u>	<u>229,303</u>
Non-current assets:			
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>840,450</u>	<u>22,530</u>	<u>862,980</u>
LIABILITIES			
Current liabilities:			
Accounts payable	19,385	-	19,385
Current portion of long-term obligations	30,000	-	30,000
Total current liabilities	<u>49,385</u>	<u>-</u>	<u>49,385</u>
Non-current liabilities:			
Customer deposits payable	-	18,099	18,099
Notes payable	345,000	-	345,000
Total non-current liabilities	<u>345,000</u>	<u>18,099</u>	<u>363,099</u>
Total liabilities	<u>394,385</u>	<u>18,099</u>	<u>412,484</u>
NET POSITION			
Net investment in capital assets	258,677	-	258,677
Restricted:			
Debt service	71,502	-	71,502
Capital improvements	64,714	-	64,714
Unrestricted	51,172	4,431	55,603
Total net position	<u>\$ 446,065</u>	<u>4,431</u>	<u>450,496</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 Position
Proprietary Funds
For the Year Ended June 30, 2013

	Business-type Activities - Enterprise Funds		
	Calumet Public Works Authority	Meter Deposit Fund	Total Enterprise Funds
<u>OPERATING CASH RECEIPTS:</u>			
Charges for services			
Water	\$ 92,357	-	92,357
Sewer	43,148	-	43,148
Sanitation	64,129	-	64,129
Other	3,886	-	3,886
Total operating cash receipts	<u>203,520</u>	<u>-</u>	<u>203,520</u>
<u>OPERATING CASH DISBURSEMENTS:</u>			
General and administration	153,438	-	153,438
Water and sewer	33,908	-	33,908
Total operating cash disbursements	<u>187,346</u>	<u>-</u>	<u>187,346</u>
Operating income (loss)	<u>16,174</u>	<u>-</u>	<u>16,174</u>
<u>NONOPERATING RECEIPTS (DISBURSEMENTS):</u>			
Project expenditures	-	-	-
Miscellaneous revenues	12,665	(356)	12,309
Grant income	-	-	-
Interest income	442	78	520
Interest expense and fiscal charges	(22,360)	-	(22,360)
Total nonoperating receipts (disbursements)	<u>(9,253)</u>	<u>(278)</u>	<u>(9,531)</u>
<u>OPERATING TRANSFERS</u>			
Transfers in	-	-	-
Transfers out	(1,800)	-	(1,800)
Total operating transfers	<u>(1,800)</u>	<u>-</u>	<u>(1,800)</u>
Change in net position	5,121	(278)	4,843
Net position - beginning	440,944	4,709	445,653
Net position - ending	<u>\$ 446,065</u>	<u>4,431</u>	<u>450,496</u>

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, 2013

	Business-type Activities - Enterprise Funds		
	Calumet Public Works Authority	Meter Deposit Fund	Total Enterprise Funds
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>			
Receipts from customers	\$ 203,520	-	203,520
Payments to suppliers	(178,021)	-	(178,021)
Payments to employees	-	-	-
Net cash provided (used) by operating activities	<u>25,499</u>	<u>-</u>	<u>25,499</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>			
Miscellaneous revenues	12,665	-	12,665
Operating transfers in (out)	(1,800)	-	(1,800)
Net cash provided (used) by noncapital financing activities	<u>10,865</u>	<u>-</u>	<u>10,865</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	(22,360)	-	(22,360)
Decrease (increase) in restricted assets	(60,852)	(456)	(61,308)
Net cash provided (used) by capital and related financing activities	<u>(108,212)</u>	<u>(456)</u>	<u>(108,668)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>			
Interest received	442	78	520
Net cash provided (used) by investing activities	<u>442</u>	<u>78</u>	<u>520</u>
Net increase (decrease) in cash and cash equivalents	(71,406)	(378)	(71,784)
Cash and cash equivalents, beginning of the year	141,963	4,809	146,772
Cash and cash equivalents, end of the year	<u>\$ 70,557</u>	<u>4,431</u>	<u>74,988</u>
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</u>			
Operating income (loss)	16,174	-	16,174
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	9,325	-	9,325
Total adjustments	<u>9,325</u>	<u>-</u>	<u>9,325</u>
Net cash provided by (used in) operating activities	<u>\$ 25,499</u>	<u>-</u>	<u>25,499</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, 2013

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 position, 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, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

Government-wide Financial Statements - The statement of net position 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, 2013.

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, 2013

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 position, 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, 2013

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 POSITION

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, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

1.G. - FUND BALANCES AND NET POSITION - 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 position:

Net position are displayed in three components:

a. *Net investment in capital assets* - 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 position* - Consists of net position 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, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

c. *Unrestricted net position* - All other net position 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 position prior to the use of unrestricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position 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 position 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 ON ALL 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 position/fund balances, revenues and expenditures/expenses.

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

For the year ended June 30, 2013 the Town recognized \$10,540 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, 2013

NOTE 2 - DETAILED NOTES ON ALL FUNDS - Continued

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

At June 30, 2013, the primary government held the following deposits and investments:

Deposits:	Carrying Value
Demand deposits	\$ 3,896,085
Time deposits	<u>0</u>
Total deposits and investments	<u>\$ 3,896,085</u>

Reconciliation to Statement of Net Position:

Cash and cash equivalents	\$ 3,896,085
Investments	<u>0</u>
	<u>\$ 3,896,085</u>

Custodial Credit Risk

At June 30, 2013, the City held deposits of approximately \$3,919,358 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, 2013

NOTE 2 - DETAILED NOTES ON ALL 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	\$ 23,101
Debt service reserve	48,401
Total restricted assets	<u>\$ 71,502</u>

Town of Calumet, Oklahoma
Notes to Basic Financial Statements
June 30, 2013

NOTE 2 - DETAILED NOTES ON ALL 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 \$22,530 as June 30, 2013. 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, 2013, \$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, 2013, 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.

\$ 375,000

Long-term liabilities transactions for the year ended June 30, 2013, and changes therein were as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Business-type activities					
Notes payable:					
OWRB	\$ 400,000	-	25,000	375,000	30,000
Total business-type activities	\$ <u>400,000</u>	<u>-</u>	<u>25,000</u>	<u>375,000</u>	<u>30,000</u>

Town of Calumet, Oklahoma
Notes to Basic Financial Statements
June 30, 2013

NOTE 2 - DETAILED NOTES ON ALL FUNDS - Continued

2.D. - LONG-TERM DEBT - Continued

Annual debt service requirements, including principal and interest to maturity for long-term debt at June 30, 2013 are as follows:

Year Ending June 30,	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
	2014	\$ -	-	30,000
2015	-	-	30,000	14,448
2016	-	-	30,000	13,287
2017	-	-	30,000	12,081
2018	-	-	30,000	10,838
2019-2023	-	-	185,000	31,277
2024-2028	-	-	40,000	949
Totals	\$ -	-	375,000	98,445

2.E. - INTERFUND TRANSACTIONS

The composition of interfund balances as of June 30, 2013, is as follows:

Interfund transactions:

Transfer out:	<u>Transfers In</u>				
	<u>General Fund</u>	<u>Nonmajor Governmental</u>	<u>Calumet</u>		<u>Total</u>
			<u>Public Works Authority</u>		
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, 2013

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, 2013 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, 2013

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	\$ 1,369,231
System-wide Gross Revenues - Water & Wastewater	203,520
System-wide Operating Expense - Exclusive of capital improvements, debt service and depreciation	
Water and wastewater	(187,346)
Net revenues available for debt service	<u>\$ 1,181,885</u>
 Annual amount to be paid into Sinking Fund	 <u>\$ 46,111</u>
 Coverage	 <u>25.63</u>
 Coverage requirement	 <u>1.25</u>

4. SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 27, 2013, which is the date the financial statements were available to be issued and has determined that no additional information needs to be added to the financial statements.

**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, 2013

	Budget		Actual Amounts	Variance with Final Budget Over (Under)
	Original	Final		
REVENUES				
Taxes	\$ 806,304	806,304	2,180,671	1,374,367
Intergovernmental	-	-	13,896	13,896
Licenses and permits	2,050	2,050	3,356	1,306
Charge for services	25,104	25,104	400	(24,704)
Fines and forfeitures	3,939	3,939	4,569	630
Interest	6,062	6,062	9,970	3,908
Miscellaneous	34,329	34,329	47,713	13,384
Total revenues	<u>877,788</u>	<u>877,788</u>	<u>2,260,575</u>	<u>1,382,787</u>
EXPENDITURES				
General government:				
General government	350,000	350,000	268,740	81,260
Public safety	241,000	241,000	180,394	60,606
Public works	37,000	37,000	9,373	27,627
Culture and recreation	10,000	10,000	-	10,000
Capital outlay	-	-	-	-
Total expenditures	<u>638,000</u>	<u>638,000</u>	<u>458,507</u>	<u>179,493</u>
Excess (deficiency) of revenues over (under) expenditures	239,788	239,788	1,802,068	1,562,280
OTHER FINANCING SOURCES (USES)				
Transfers	<u>(1,800)</u>	<u>(1,800)</u>	<u>(1,800)</u>	<u>-</u>
Net change in fund balances	237,988	237,988	1,800,268	1,562,280
Fund balances - beginning	1,896,295	1,896,295	1,896,295	-
Fund balances - ending	<u>\$ 2,134,283</u>	<u>2,134,283</u>	<u>3,696,563</u>	<u>1,562,280</u>

See accompanying notes to the basic financial statements.

Town of Calumet, Oklahoma
Notes to Required Supplemental Information
For the Year Ended June 30, 2013

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.

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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

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Town Council Members
Town of Calumet, Oklahoma

We 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 of the Town of Calumet, Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town of Calumet's basic financial statements and have issued our report thereon dated July 27, 2013. 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.

Internal Control Over Financial Reporting

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

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. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain

deficiencies in internal control, described in the accompanying schedule of reportable findings and responses that we consider to be significant deficiencies, referred to as Findings 2013-01, 2013-02, 2013-03 and 2013-04.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Calumet's 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*.

Town of Calumet's Response to Findings

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

Purpose of this Report

The purpose of this report is intended solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or 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.

Dillon & Associates, P.C.

Midwest City, Oklahoma
July 27, 2013

Town of Calumet, Oklahoma
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2013

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS - THROUGH GRANTOR NUMBER	PROGRAM OR AWARD AMOUNT	EXPENDITURES
<u>FEDERAL PROGRAMS</u>				
None			\$ -	-
Total Federal Assistance			-	-
<u>STATE PROGRAMS</u>				
<u>State of Oklahoma</u>				
Oklahoma Department of Agriculture				
Rural Fire Program			11,842	11,842
Total State Assistance			\$ 11,842	11,842

Note A - This schedule was prepared on an accrual (GAAP) basis of accounting consistent with the preparation of the basic financial statements.

**TOWN OF CALUMET, OKLAHOMA
SCHEDULE OF REPORTABLE FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2013**

**Finding 2013-01 - Internal Control - 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 or Potential 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.

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

Finding 2013-02 - Internal Control - Financial Statements (Repeat Finding)

Criteria - The Town's management is responsible for internal controls over financial reporting. This includes controls over the fair and complete presentation of the Town's annual financial statements in accordance with GAAP. The presentation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing and summarizing accounting data (i.e., maintaining internal books and records) and (2) reporting financial statements, including the related footnotes (i.e., external financial reporting). Professional standards clearly indicate that the external financial statement auditor cannot perform any part of management's control activities or be a component of the internal controls over financial reporting.

Condition - As is the case with many smaller and medium-sized entities, the Town has relied on its independent external auditors to provide the needed expertise to assist in the preparation of the financial statements and footnotes as part of its controls over the external financial reporting process. Accordingly, the Town's ability to prepare financial statements in accordance with generally accepted accounting principles (GAAP) is based, in part, on its external auditors, who cannot by definition be considered a part of the Town's internal controls. However, as required by professional standards the Town has provided safeguards by designating a management level individual with suitable skill, knowledge and/or experience to oversee the services performed by our engagement, make all management decisions (e.g., determining or approving account classifications, adjusting journal entries, etc.) evaluate and monitor the performance and adequacy of the services, and take responsibility for the books, records and related financial statements.

**TOWN OF CALUMET, OKLAHOMA
SCHEDULE OF REPORTABLE FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2013**

Cause - Management has elected to use outside assistance from the external auditors to assist in meeting its responsibilities relative to preparing its annual financial statements. Although the Town's management may lack certain expertise relative to preparing GAAP financial statements, professional standards do not require that the management or individual possess the expertise to perform or re-perform all such services. The auditor has explained all proposed audit adjustments and their effect on the financial statements and the related note disclosures to management who has affirmed their understanding and agreement as required by professional standards.

Effect or Potential Effect - Although management has reviewed the financial statements drafted by the auditor and accepted full responsibility for them, the auditor could be placed in a questionable position regarding auditor independence as a result of potentially performing part of management's functions if management or its representative is unable to understand the nature of the services, evaluate its adequacy and accept responsibility for its results.

Recommendation - We recommend that the Town consider designing and implementing further internal controls over financial reporting by obtaining additional expertise to process and summarize accounting data and prepare financial statements in accordance with generally accepted accounting principles without reliance on the external financial statement auditor. This could be achieved through employment of qualified accounting staff or the outsourcing of these control activities to a qualified accounting firm other than the external auditor.

Responsible Official's Response - The Town concurs with the recommendation, and will strive to process and summarize accounting data and further understand the presentation and disclosure requirements of the financial statements.

Finding 2013-03 - Internal Control - Segregation of Duties (Repeat Finding)

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 assets and ensure accurate financial reporting.

Condition - Presently the same individual is responsible for issuing purchase orders, writing checks, making deposits, posting transactions and reconciling the monthly bank statements.

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

**TOWN OF CALUMET, OKLAHOMA
SCHEDULE OF REPORTABLE FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2013**

Recommendation - We recommend that management should consider a formal evaluation of their risks associated with these procedures. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with lack of control duties, such as providing increased management oversight and an independent reconciliation of accounts. For example, the Town might consider soliciting the assistance of independent volunteer labor to perform certain functions including performing compensating procedures where applicable.

Responsible Official's Response - The Town concurs with the recommendation, although, the cost to correct this condition might exceed the benefit, the Town will strive to make changes in procedures that will improve the overall lack of segregation of duties.

Finding 2013-04 - Internal Control - 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 or Potential 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.

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