

CITY OF WETUMKA
Wetumka, Oklahoma

BASIC FINANCIAL STATEMENTS
June 30, 2011

CITY OF WETUMKA
Wetumka, Oklahoma

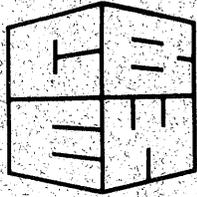
CONTENTS

	Page No.
Independent Auditor's Report	1-2
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	3
Statement of Activities and Changes in Net Assets	4-5
Fund Financial Statements:	
Balance Sheet - Governmental Funds	6
Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets	7
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	8
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Government-Wide Statement of Activities and Changes in Net Assets	9
Statement of Net Assets - Proprietary Funds	10
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds	11
Statement of Cash Flows - Proprietary Funds	12
Statement of Fiduciary Net Assets - Fiduciary Funds	13
Notes to the Basic Financial Statements	14-28
Required Supplemental Information:	
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (GAAP Budgetary Basis) and Actual – Governmental Funds	29-31
Notes to Required Supplemental Information	32

CITY OF WETUMKA
Wetumka, Oklahoma

CONTENTS

	Page No.
Supplemental Information:	
Combining Balance Sheet – Non-Major Governmental Funds	33
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Non-Major Governmental Funds	34
Schedule of Expenditures of Federal Awards	35
Report Required by <i>Government Auditing Standards</i>:	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	36-37
Schedule of Findings and Responses	38-40



CBEW
Professional
Group, LLP

Certified Public Accountants

206 N. HARRISON ● P.O. BOX 790 ● CUSHING, OKLAHOMA 74023 ● 918-225-4216 ● FAX 918-225-4315

DON K. ETHRIDGE, CPA
WALTER H. WEBB, CPA
JANE FRAZIER, CPA
CHARLES E. CROOKS, CPA
TRISHA J. RIEMAN, CPA

INDEPENDENT AUDITOR'S REPORT

November 18, 2011

The Honorable City Council
City of Wetumka, 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 City of Wetumka, Oklahoma, (City) as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City'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 the 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 financial statements. An audit also includes assessing the accounting principles 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 opinion.

As discussed in Note 1 to the financial statements, the City 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. The amount by which these departures would affect the assets, net assets, and expenses of the Governmental and Business-Type Activities is not readily determinable.

In our opinion, except for the effects, if any, on the financial statements of incomplete capital asset record keeping described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental and business-type activities of the City of Wetumka, Oklahoma, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining governmental fund information of the City of Wetumka, Oklahoma, as of June 30, 2011, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2011 on our consideration of the City'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 on 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.

City of Wetumka
November 18, 2011

Budgetary comparison information on pages 29 through 31 and the notes on page 32 are not a required part of the financial statements but are 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 City of Wetumka has not presented the Management's Discussion and Analysis required by the Governmental Accounting Standards Board (GASB) that the GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Wetumka's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards and the combining and individual non-major governmental fund statements listed in the table of contents are presented for additional analysis and are not a required part of the basic financial statements. We subjected this information to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects, in relation to the basic financial statements taken as a whole.

CBEW Professional Group, LLP

CBEW Professional Group, LLP
Certified Public Accountants

CITY OF WETUMKA
STATEMENT OF NET ASSETS
June 30, 2011

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and investments:			
Cash & cash equivalents (Note 1)	\$ 1,016,069	\$ -	\$ 1,016,069
Cash on hand	300	-	300
Investments	12,500	-	12,500
Receivables (net of allowance for uncollectibles):			
Accounts receivable	-	160,899	160,899
Taxes	29,465	-	29,465
Grant receivable	18,881	-	18,881
Due to/from others	(103,428)	15,453	(87,975)
Restricted assets:			
Cash and investments (Note 1)	-	15,666	15,666
Capital assets:			
Land and construction in process	348,587	198,322	546,909
Depreciable buildings, property, equipment and infrastructure, net of depreciation (Notes 1 & 2)	425,368	1,493,843	1,919,211
Deferred charges:			
Bond issue cost (net of accumulated amortization) (Note 1)	-	41,173	41,173
Total assets	\$ 1,747,742	\$ 1,925,356	\$ 3,673,098
Liabilities:			
Accounts payable	\$ 50,854	\$ 59,269	\$ 110,123
Cash overdraft	43,674	495,425	539,099
Accrued compensated absences payable (Note 1)	46,284	25,001	71,285
Interest payable	-	1,526	1,526
Notes payable (Note 2)	-	1,553,051	1,553,051
Total liabilities	140,812	2,134,272	2,275,084
Net assets:			
Invested in capital assets, net of related debt	773,955	(59,208)	714,747
Restricted	789,228	15,666	804,894
Unrestricted	43,747	(165,374)	(121,627)
Total net assets	\$ 1,606,930	\$ (208,916)	\$ 1,398,014

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

CITY OF WETUMKA
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
General government:					
City clerk	\$ 25,218	\$ -	\$ -	\$ -	\$ (25,218)
City treasurer	25,218	-	-	-	(25,218)
City manager	20,400	-	-	-	(20,400)
General government	205,327	9,034	-	-	(196,293)
Total general government	<u>276,163</u>	<u>9,034</u>	<u>-</u>	<u>-</u>	<u>(267,129)</u>
Public safety and judiciary:					
City attorney	3,900	-	-	-	(3,900)
Fire and ambulance	31,221	-	-	15,753	(15,468)
Municipal court	2,700	24,692	-	-	21,992
Police	268,050	-	-	-	(268,050)
Total public safety and judiciary	<u>305,871</u>	<u>24,692</u>	<u>-</u>	<u>15,753</u>	<u>(265,426)</u>
Transportation:					
Streets	122,394	24,396	-	-	(97,998)
Total transportation	<u>122,394</u>	<u>24,396</u>	<u>-</u>	<u>-</u>	<u>(97,998)</u>
Cultural, parks and recreation:					
Library	26,150	-	379	3,904	(21,867)
Parks	14,576	-	-	-	(14,576)
Cemetery	86,964	31,600	-	-	(55,364)
Total cultural, parks and recreation	<u>127,690</u>	<u>31,600</u>	<u>379</u>	<u>3,904</u>	<u>(91,807)</u>
Electric service	<u>72,760</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(72,760)</u>
Community development	-	-	-	1,610	1,610
Unallocated depreciation	<u>17,852</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(17,852)</u>
Total governmental activities	<u>922,730</u>	<u>89,722</u>	<u>379</u>	<u>21,267</u>	<u>(811,362)</u>
Business-type activities					
Electric service	703,111	1,177,427	-	-	474,316
Water service	335,061	324,946	-	182,896	172,781
Sewer service	68,437	54,613	-	-	(13,824)
Sanitation service	100,853	102,583	-	-	1,730
Financing costs	73,199	-	-	-	(73,199)
Unallocated depreciation*	150,500	-	-	-	(150,500)
Total business-type activities	<u>1,431,161</u>	<u>1,659,569</u>	<u>-</u>	<u>182,896</u>	<u>411,304</u>
Total	<u>\$ 2,353,891</u>	<u>\$ 1,749,291</u>	<u>\$ 379</u>	<u>\$ 204,163</u>	<u>\$ (400,058)</u>

* - This amount does not include the depreciation that is included in the direct expenses of various programs.

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

CITY OF WETUMKA
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended June 30, 2011

	Net (Expense) Revenue and Changes in Net Assets		
	Governmental Activities	Business-Type Activities	Total
Net (expense)/revenue	(811,362)	411,304	(400,058)
General revenues:			
Taxes:			
Sales and use taxes	263,034	-	263,034
Franchise taxes	10,719	-	10,719
Cigarette taxes	3,657	-	3,657
Intergovernmental	37,906	-	37,906
Gas excise taxes	2,024	-	2,024
Investment earnings	330	2	332
Oil production	9,089	-	9,089
Miscellaneous	72,840	62,663	135,503
Transfers	354,033	(354,033)	-
Total general revenues and transfers	<u>753,632</u>	<u>(291,368)</u>	<u>462,264</u>
Change in net assets	(57,730)	119,936	62,206
Fund balance - beginning of year	<u>1,664,660</u>	<u>(328,852)</u>	<u>1,335,808</u>
Net assets - end of year	<u>\$ 1,606,930</u>	<u>\$ (208,916)</u>	<u>\$ 1,398,014</u>

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

**CITY OF WETUMKA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011**

	General Fund	Special Revenue	Capital Projects		Other Governmental Funds	Total Governmental Funds
		Street Assessment	Sewer Improvement	Electric Improvement		
Assets:						
Cash and investments:						
Cash & cash equivalents \$	247,124 \$	366,687 \$	182,843 \$	182,965 \$	36,450 \$	1,016,069
Cash on hand	300	-	-	-	-	300
Investments	12,500	-	-	-	-	12,500
Accrued governmental transfers	18,395	4,151	-	6,919	-	29,465
Accounts receivable	-	-	-	-	18,881	18,881
Due from others	-	-	-	-	36,548	36,548
Restricted assets:						
Cash & cash equivalents	-	-	-	-	-	-
Total assets	\$ 278,319	\$ 370,838	\$ 182,843	\$ 189,884	\$ 91,879	\$ 1,113,763
Liabilities:						
Accounts payable \$	6,299	43,941	-	-	614 \$	50,854
Cash overdraft	-	-	-	-	43,674	43,674
Due to others	139,976	-	-	-	-	139,976
Total liabilities	146,275	43,941	-	-	44,288	234,504
Fund balance:						
Restricted for:						
Capital projects	-	-	182,843	189,794	44,681	417,318
Cemetery care	-	-	-	-	36,548	36,548
Streets	-	326,705	-	-	-	326,705
Other purposes	-	-	-	-	8,327	8,327
Committed for:						
Capital projects	-	-	-	90	43	133
Streets	-	192	-	-	-	192
Other purposes	-	-	-	-	5	5
Uassigned	132,044	-	-	-	(42,013)	90,031
Total fund balance	132,044	326,897	182,843	189,884	47,591	879,259
Total liabilities and fund balance	\$ 278,319	\$ 370,838	\$ 182,843	\$ 189,884	\$ 91,879	\$ 1,113,763

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

CITY OF WETUMKA
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT
 OF NET ASSETS
 June 30, 2011

Total Fund Balances - Total Governmental Funds \$ 879,259

Amounts reported for governmental activities in the statement of net assets are different because:

Accrued compensated absences payable (46,284)

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Building improvements	\$	26,133	
Building improvements		119,054	
Sewer system improvements		277,302	
Vehicles		2,879	
Land		290,250	
Construction in process		58,337	
			773,955

Net assets of governmental activities \$ 1,606,930

CITY OF WETUMKA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2011

	General Fund	Special Revenue	Capital Projects		Other Governmental Funds	Total Governmental Funds
		Street Assessment	Sewer Improvement	Electric Improvement		
Revenues:						
Cemetery	\$ 30,643	\$ -	\$ -	\$ -	\$ -	\$ 30,643
Cigarette taxes	3,657	-	-	-	-	3,657
Interest	-	192	-	90	48	330
Franchise taxes	10,719	-	-	-	-	10,719
Gas excise taxes	-	-	-	-	2,024	2,024
Intergovernmental programs	30,679	-	-	-	28,493	59,172
Fines and forfeits	24,692	-	-	-	-	24,692
Street assessments	-	24,395	-	-	-	24,395
Lot sales	-	-	-	-	956	956
Licenses and permits	9,034	-	-	-	-	9,034
Sales and use taxes	94,904	25,219	-	42,033	100,879	263,035
Wastewater	-	-	21,212	-	-	21,212
Oil production	9,089	-	-	-	-	9,089
Donations and other	18,686	-	-	32,944	379	52,009
Total revenues	<u>232,103</u>	<u>49,806</u>	<u>21,212</u>	<u>75,067</u>	<u>132,779</u>	<u>510,967</u>
Expenditures:						
Current:						
General government	249,216	-	-	-	26,947	276,163
Public safety	262,688	-	-	-	11,797	274,485
Highways and roads	-	76,526	-	-	45,868	122,394
Cultural and recreational	123,196	-	-	-	4,493	127,689
Electric service	-	-	-	72,760	-	72,760
Community development	-	-	-	-	-	-
Capital outlay	-	43,941	-	-	-	43,941
Total expenditures	<u>635,100</u>	<u>120,467</u>	<u>-</u>	<u>72,760</u>	<u>89,105</u>	<u>917,432</u>
Excess of revenues over (under) expenditures	(402,997)	(70,661)	21,212	2,307	43,674	(406,465)
Other financing uses:						
Operating transfers in (out)	420,961	-	-	-	(66,928)	354,033
Excess of revenues over (under) expenditures & transfers	17,964	(70,661)	21,212	2,307	(23,254)	(52,432)
Fund balance - beginning of year	<u>114,080</u>	<u>397,558</u>	<u>161,631</u>	<u>187,577</u>	<u>70,845</u>	<u>931,691</u>
Fund balance - end of year	<u>\$ 132,044</u>	<u>\$ 326,897</u>	<u>\$ 182,843</u>	<u>\$ 189,884</u>	<u>\$ 47,591</u>	<u>\$ 879,259</u>

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

CITY OF WETUMKA
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended June 30, 2011

Net Change in Fund Balances - Total Governmental Funds \$ (52,432)

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

Government-Wide Statement of Activities and Changes in Net Assets report accrued compensated absences in the period incurred. However, Governmental Funds do not pay on this liability until the employee has left employment. The amount of the change in accrued absences recorded in the current period. (31,386)

Governmental Funds report capital outlay as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period. 43,940

Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds. (17,852)

Change in Net Assets of Governmental Activities \$ (57,730)

CITY OF WETUMKA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2011

Business-type Activities - Enterprise Funds

	<u>Wetumka Municipal Authority</u>
Assets:	
Cash and investments:	
Cash & cash equivalents (Note 1)	\$ -
Accounts receivables (net of allowance for uncollectibles)	160,899
Due from others	15,453
Restricted assets:	
Cash & cash equivalents (Note 1)	15,666
Capital assets:	
Land and construction in process	198,322
Depreciable buildings, property and equipment, net of depreciation (Notes 1 & 2)	1,493,843
Deferred charges:	
Bond issue cost (net of accumulated amortization) (Note 1)	41,173
	<u>\$ 1,925,356</u>
Total assets	
Liabilities:	
Accounts payable	\$ 59,269
Cash overdraft	495,425
Due to others	-
Accrued compensated absences payable (Note 1)	25,001
Interest payable	1,526
Notes payable (Note 2)	1,553,051
	<u>2,134,272</u>
Total liabilities	
Net assets:	
Invested in capital assets, net of related debt	(59,208)
Restricted	15,666
Unrestricted	(165,374)
	<u>(208,916)</u>
Total net assets	<u>\$ (208,916)</u>

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

CITY OF WETUMKA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2011

Business-type Activities - Enterprise Funds

	<u>Wetumka Municipal Authority</u>
Revenues:	
Electric revenue	\$ 1,177,427
Water revenue	324,946
Wastewater revenue	54,613
Sanitation revenue	102,583
Administrative revenue	-
Miscellaneous revenue	62,663
Rental revenue	-
	<hr/>
Total revenues	1,722,232
	<hr/>
Operating expenses:	
General and administrative	-
Electric service	703,111
Water service	335,061
Sewer service	68,437
Sanitation service	100,853
Depreciation expense	150,500
	<hr/>
Total operating expenses	1,357,962
	<hr/>
Income before non-operating revenues, expenses & transfers	364,270
	<hr/>
Non-operating revenues (expenses):	
Interest revenue	2
Interest expense	(72,144)
Grant revenue	182,896
Amortization of bond issue cost	(1,055)
	<hr/>
Total	109,699
	<hr/>
Income (loss) before operating transfers	473,969
	<hr/>
Transfers in (out)	(354,033)
	<hr/>
Change in net assets	119,936
	<hr/>
Net assets at beginning of year	(328,852)
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Net assets at end of year	\$ (208,916)
	<hr/> <hr/>

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

CITY OF WETUMKA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2011

Business-type Activities - Enterprise Funds

	<u>Wetumka Municipal Authority</u>
Cash flows from operating activities:	
Cash received from customers & service users	\$ 1,704,094
Cash payments for goods & services & employees	(1,244,683)
Other operating revenues	-
Net cash provided by operating activities	<u>459,411</u>
Cash flows from noncapital financing activities:	
Operating transfers out to other funds	(513,732)
Operating transfers in from other funds	159,700
Change in due to/from accounts	(136,725)
Net cash provided (used) for noncapital financing activities	<u>(490,757)</u>
Cash flows from capital and related financing activities:	
Acquisition & construction of capital assets	(201,308)
Grant proceeds	182,896
Principal paid on debt	(62,255)
Interest paid on debt	(72,144)
Net cash provided (used) for capital and related financing activities	<u>(152,811)</u>
Cash flows from investing activities:	
Interest on investments	<u>2</u>
Net cash provided by investing activities	<u>2</u>
Net increase (decrease) in cash & cash equivalents	(184,155)
Cash and cash equivalents - beginning of year	<u>(295,604)</u>
Cash and cash equivalents - end of year	<u>\$ (479,759)</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ <u>364,270</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	150,500
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	(18,138)
Increase (decrease) in accounts payable	(51,936)
Increase (decrease) in accrued expenses	14,715
Total adjustments	<u>95,141</u>
Net cash provided by operating activities	<u>\$ 459,411</u>

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

CITY OF WETUMKA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2011

	<u>Agency Funds</u>
Assets:	
Cash and cash equivalents	\$ 4,000
Due from others	<u>87,975</u>
Total assets	<u>\$ 91,975</u>
Liabilities:	
Deposits	\$ <u>91,975</u>
Total liabilities	<u>\$ 91,975</u>

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

CITY OF WETUMKA
Wetumka, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Wetumka, Oklahoma (the City) complies with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has chosen not to do so. The more significant accounting policies established in GAAP and used by the City are discussed below.

A. Reporting Entity

The City of Wetumka, Oklahoma is organized under the statutes of the State of Oklahoma. The City operates under a council form of government and is governed by a four-member board of commissioners. The commissioners elect the mayor from their own body. The City provides the following services as authorized by its charter: general government, public safety (fire and police), streets, public works (electric, water, sewer, and sanitation), judicial, culture, parks and recreation, public improvements and planning and zoning for the City of Wetumka, Oklahoma.

As required by accounting principles generally accepted in the United States of America, these financial statements present the activities of the City and its component units and trusts, entities for which the City is considered to be financially accountable. Blended component units and trusts, although legally separate entities are, in substance, part of the City's operations and so data from these units are combined with the data of the primary government. The City's financial statements do not include any discretely presented component units that would be reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

Blended Component Units/Trusts:

The Wetumka Municipal Authority (the Authority) was created pursuant to a Trust Indenture for the benefit of the City of Wetumka, Oklahoma. The Authority was established to serve all the citizens of the City and is governed by a board comprised of the City's elected council members. The rates for user charges and bond issuance authorizations are approved by the City council and the legal liability for the general obligation portion of the Authority's debt remains with the City. The electric, water, sanitary sewer, and solid waste disposal systems owned by the City have been leased to WMA until such date that all indebtedness of the Authority is retired or provided for. WMA is a public trust and an agency of the State of Oklahoma under Title 60, Oklahoma Statutes 1991, Section 176, et seq., and is governed by a board consisting of five trustees identical with the City Council. WMA is exempt from State and Federal Income taxes. The Authority is reported as an enterprise fund.

The City council appoints members to various boards such as the Wetumka Housing Authority and the Wetumka Hospital Authority. These entities don't meet the criteria for inclusion in the City's financial statements.

B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting

The City'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 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.

CITY OF WETUMKA
Wetumka, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting (Continued)

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on program revenues are presented as general revenues of the city, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements – During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Major funds represent 10% of assets, liabilities, revenues, or expenditures of the corresponding element for all funds of that category *and* is at least 5% of the corresponding element total for all governmental and enterprise funds combined *or* is a fund that the government believes is important enough for financial statement users to be reported as a major fund. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

Fund Accounting – The accounts of the City are organized and operated on the basis of funds. A fund is an independent fiscal accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. There are three categories of funds: governmental, proprietary and fiduciary.

Governmental Funds – are used to account for the government's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers all revenues available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Sales and use taxes, cigarette taxes, gasoline excise taxes and motor vehicle taxes collected and held by the state and county at year-end on behalf of the City are susceptible to accrual and are recognized as revenue. Other receipts and taxes (franchise taxes, licenses, etc.) become measurable and available when cash is received by the government and are recognized as revenue at that time.

CITY OF WETUMKA
Wetumka, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting (Continued)

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The following are the City's major governmental funds:

General Fund – is the general operating fund of the City. It accounts and reports for all financial resources not required to be reported in another fund.

Street Assessment Fund – is a special revenue fund which accounts for specific revenue sources that are legally restricted or committed to expenditures for specific purposes (not including major capital projects) such as street improvements.

Sewer Improvement Fund and Electric Improvement Fund – are capital projects funds which accounts for and reports resources that are restricted, committed, or assigned to expenditure for the acquisition or construction of major capital facilities, other than those activities financed by proprietary activities or held in trust for individuals, private organizations or other governments which includes sewer and electric improvement projects.

Other governmental funds of the City that are considered non-major funds include:

Special Revenue Funds – accounts for specific revenue sources that are legally restricted or committed to expenditures for specific purposes (not including major capital projects). The following are the City's Special Revenue Funds: Street and Alley Fund, Fire Department Grant Fund, and Library Fund.

Capital Projects Funds – which accounts for and reports resources that are restricted, committed, or assigned to expenditure for the acquisition or construction of major capital facilities, other than those activities financed by proprietary activities or held in trust for individuals, private organizations or other governments. Capital Project Funds of the City include: Equipment Fund, Water Improvement Fund, and General Improvement Fund.

Permanent Funds – account for and report resources that are restricted to the extent that only earnings (not principal) may be used for purposes that support the reporting government's programs, excluding private-purpose trusts. The fund is accounted for using the modified accrual basis of accounting and the measurement focus is essentially the flow of current financial resources. The City's permanent fund is composed of the Cemetery Perpetual Care Fund.

Proprietary Funds – are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. In compliance with the Governmental Accounting Standards Board (GASB) Statement No. 20 the City has applied only Financial Accounting Standards Board (FASB), Accounting Principles Board (APB) and Accounting Research Board (ARB) materials issued on or before November 30, 1989 that do not conflict with GASB. Proprietary funds are classified as enterprise funds.

CITY OF WETUMKA
Wetumka, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting (Continued)

Enterprise Funds – are used to account for those operations that are financed and operated in a manner similar to private business where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where the governing body has decided that the determination of revenues earned, costs incurred and/or net income is necessary for capital maintenance, public policy or management accountability. The City's major enterprise fund is:

Wetumka Municipal Authority – which accounts for the operations of providing public works (electric, water, sewer and sanitation) to the City.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Fiduciary Funds – account for assets held by the government in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the government under the terms of a formal trust agreement. Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the government holds for others in an agency capacity. The City's only fiduciary fund is an agency fund that is composed of customer meter deposit funds.

C. Assets, Liabilities and Equity

1. Deposits and Investments

Oklahoma Statutes authorize the City to invest in certificates of deposit, repurchase agreements, passbooks, bankers' acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, the City can invest in direct debt securities issued by the State of Oklahoma, an Oklahoma County, school district, or municipality.

For financial statement presentation and for purposes of the statement of cash flows, the City's cash and cash equivalents are considered to be cash on hand, demand deposits and certificates of deposit with maturity date of three months or less. Debt instruments with a maturity date of more than three months from date of issue are considered to be investments. Investments are stated at fair value.

2. Restricted Assets

The restricted assets are the result of financial requirements of the notes payable. These assets are maintained by the City and their use is limited by applicable promissory note covenants. These accounts and reserve funds are to be maintained so long as any notes are outstanding. Customer utility deposits held by the City are classified as restricted assets. In addition, certain funds are restricted for Cemetery land acquisitions and for the payment of specific expenditures.

CITY OF WETUMKA
Wetumka, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Equity (Continued)

3. Fair Value of Financial Instruments

The City's financial instruments include cash and cash equivalents, investments, accounts receivable and accounts payable. The City's estimates of the fair value of all financial instruments do not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of net assets. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

4. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

5. Inventories

Inventories in both governmental funds and proprietary funds normally consist of minimal amounts of expendable supplies held for consumption. The costs of such inventories are recorded as expenditures when purchased rather than when consumed.

6. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due from other/due to other funds" (i.e., the current portion of inter-fund loans) or "advances to/from other funds (i.e., the noncurrent portion of inter-fund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 90 days comprise the trade accounts receivable allowance for uncollectibles.

7. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported in the business-type activities column of the government-wide statement of net assets and in the respective funds.

CITY OF WETUMKA
Wetumka, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Equity (Continued)

7. Capital Assets (Continued)

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$1,000 for all assets. The City's infrastructure consists of roads, bridges, culverts, curbs and gutter, streets and sidewalks, drainage system, lighting systems and similar assets that are immovable and of value only to the City. Such infrastructure assets acquired after July 1, 2003 are capitalized in accordance with the requirements of GASB 34. Improvements are capitalized; the costs of normal maintenance and repairs that do not add value of the asset or materially extend an asset's life are not capitalized. Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase of proprietary fund capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

The City 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 to determine these amounts.

Depreciation is computed using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings	20 years
Improvements other than buildings	20 years
Equipment and vehicles	5 - 10 years
Furniture and equipment	7 years
Sewer system improvements	40 years
Electric distribution system	20 years

8. Deferred Charges

Bond issue costs are amortized ratably over the repayment period of the applicable bond using the straight-line method.

9. Compensated Absences

It is the City's policy to permit full-time employees to accumulate earned but unused vacation and compensatory time based on their length of service. Employees may accumulate 5 to 35 days of vacation per year depending on their years of service completed. No more than 2 weeks of vacation per calendar year may be carried over from one benefit year into another. Vacation leave which is unused and vested to the employee is payable upon separation of employment in good standing. Employees are granted sick leave at the rate of 4.42 hours per pay period, with a maximum of 15 days that may be carried over from the prior year, but no more than 30 days. Unused sick leave is not payable to an employee upon separation of employment; therefore, there is no liability for unpaid accumulated sick leave.

CITY OF WETUMKA
Wetumka, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Equity (Continued)

10. Long-term Obligations

The accounting and reporting treatment applied to long-term liabilities associated with a fund are determined by its measurement focus. All governmental fund types are accounted for on a spending "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources". Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Therefore, long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

11. Net Assets/Fund Balance

In the government-wide financial statement, net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws or other governments, or are imposed by law through constitutional provisions or enabling legislation.

In the fund financial statements, governmental funds report the hierarchy of fund balances. The hierarchy is based primarily on the degree of spending constraints placed upon use of resources for specific purposes versus availability of appropriation. An important distinction that is made in reporting fund balance is between amounts that are considered *nonspendable* (i.e., fund balance associated with assets that are *not in spendable form*, such as inventories or prepaid items, long-term portions of loans and notes receivable, or items that are legally required to be maintained intact (such as the corpus of a permanent fund)) and those that are *spendable* (such as fund balance associated with cash, investments or receivables).

Amounts in the *spendable* fund balance category are further classified as *restricted*, *committed*, *assigned* or *unassigned*, as appropriate.

Restricted fund balance represents amounts that are constrained either externally by creditors (such as debt covenants), grantors, contributors or laws or regulations of other governments; or by law, through constitutional provisions or enabling legislation.

Committed fund balance represents amount that are useable only for specific purposes by formal action of the government's highest level of decision-making authority. Such amounts are not subject to legal enforceability (like restricted amounts), but cannot be used for any other purpose unless the government removes or changes the limitation by taking action similar to that which imposed the commitment. The City Ordinance is the highest level of decision-making authority of the City.

CITY OF WETUMKA
Wetumka, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Equity (Continued)

11. Net Assets/Fund Balance (Continued)

Assigned fund balance represents amounts that are *intended* to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by the governing body itself, or a subordinated high-level body or official who the governing body has delegated the authority to assign amounts to be used for specific purposes. Assigned fund balances includes all remaining spendable amounts (except negative balances) that are reported in governmental funds *other than the general fund*, that are neither restricted nor committed, and amounts in the general fund that are intended to be used for specific purpose in accordance with the provisions of the standard.

Unassigned fund balance is the residual classification for the general fund. It represents the amounts that have not been assigned to other funds, and that have not been restricted, committed, or assigned to specific purposes within the general fund.

12. Resource Use Policy

It is in the City's policy for all funds that when an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources, including fund balances, are available, the City considers restricted amounts to be spent first before any unrestricted amounts are used. Furthermore, it is the City's policy that when an expenditure/expense is incurred for purposes for which committed, assigned, or unassigned resources, including fund balances, are available, the City considers committed amounts to be spent first, followed by assigned amounts and lastly unassigned amounts.

2. DETAILED NOTES CONCERNING THE FUNDS

A. Deposits and Investments

Custodial Credit Risk

At June 30, 2011, the City held deposits of approximately \$1,048,235 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 securities held by the City or by its agent in the City's name.

Investment Interest Rate Risk

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

Investment Credit Risk

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

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of 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.

CITY OF WETUMKA
Wetumka, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011

2. DETAILED NOTES CONCERNING THE FUNDS (Continued)

A. Deposits and Investments (Continued)

- c. With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

The cash and investments held at June 30, 2011 are as follows:

Type	Weighted Average Maturity (Months)	Credit Rating	Market Value	Cost
Investments				
Certificate of deposit	6.00	N/A	\$ 12,500	\$ 12,500
Total investments			\$ 12,500	\$ 12,500
<u>Reconciliation to Statement of Net Assets</u>				
			\$ 12,500	
			\$ 12,500	

Concentration of Investment Credit Risk

The City places no limit on the amount it may invest in any one issuer. The City has the following of credit risk: 100% in Certificates of deposit (\$12,500).

CITY OF WETUMKA
Wetumka, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011

2. DETAILED NOTES CONCERNING THE FUNDS (Continued)

B. Capital Assets

Primary Government capital asset activity for the year ended is as follows:

Governmental activities	Balance 6/30/10	Additions	Disposals	Balance 6/30/11
Non-depreciable assets:				
Land	290,250	-	-	290,250
Construction work in process	14,397	43,940	-	58,337
Total capital assets, not depreciated	<u>304,647</u>	<u>43,940</u>	<u>-</u>	<u>348,587</u>
Depreciable assets:				
Buildings and improvements	508,618	-	-	508,618
Sewer system improvements	371,292	-	-	371,292
Equipment	203,255	-	-	203,255
Vehicles	406,453	-	-	406,453
Total depreciable assets	<u>1,489,618</u>	<u>-</u>	<u>-</u>	<u>1,489,618</u>
Less accumulated depreciation:				
Buildings and improvements	(355,015)	(8,416)	-	(363,431)
Sewer system improvements	(85,994)	(7,996)	-	(93,990)
Equipment	(203,255)	-	-	(203,255)
Vehicles	(402,134)	(1,440)	-	(403,574)
Total accumulated depreciation	<u>(1,046,398)</u>	<u>(17,852)</u>	<u>-</u>	<u>(1,064,250)</u>
Net business-type activities capital assets	\$ <u>747,867</u>	\$ <u>26,088</u>	\$ <u>-</u>	\$ <u>773,955</u>

CITY OF WETUMKA
Wetumka, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011

2. DETAILED NOTES CONCERNING THE FUNDS (Continued)

B. Capital Assets (Continued)

Business-Type Activities:	Balance 6/30/10	Additions	Disposals	Balance 6/30/11
Non-depreciable assets:				
Land	21,000	-	-	21,000
Construction work in process	1,015	176,307	-	177,322
Total capital assets, not depreciated	<u>22,015</u>	<u>176,307</u>	<u>-</u>	<u>198,322</u>
Depreciable assets:				
Buildings and improvements	333,840	-	-	333,840
Electric distribution	657,486	-	-	657,486
Water plant and system improvements	2,627,717	-	-	2,627,717
Equipment	168,818	25,000	-	193,818
Total depreciable assets	<u>3,787,861</u>	<u>25,000</u>	<u>-</u>	<u>3,812,861</u>
Less accumulated depreciation:				
Buildings and improvements	(333,840)	-	-	(333,840)
Electric distribution	(643,424)	(740)	-	(644,164)
Water plant and system improvements	(1,033,923)	(145,984)	-	(1,179,907)
Equipment	(157,331)	(3,776)	-	(161,107)
Total accumulated depreciation	<u>(2,168,518)</u>	<u>(150,500)</u>	<u>-</u>	<u>(2,319,018)</u>
Net business-type activities capital assets	<u>\$ 1,641,358</u>	<u>\$ 50,807</u>	<u>\$ -</u>	<u>\$ 1,692,165</u>

Depreciation expense was charged to unallocated depreciation and not charged as a direct expense of the various programs.

C. Inter-fund Receivables and Payables

The following schedule reflects the City's inter-fund due from and due to other governmental funds, which have been eliminated in the statement of net assets presentation in accordance with GASB 34:

	Due From	Due To
Cemetery Perpetual Care	36,548	-
General Fund	-	139,976
Wetumka Municipal Authority	15,453	-
Meter deposit fund	87,975	-
Total all funds	<u>\$ 139,976</u>	<u>\$ 139,976</u>

The \$87,975 remains on the statement of net assets since the fiduciary fund (Meter Deposit Fund) is shown outside the government-wide financial statements.

CITY OF WETUMKA
Wetumka, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011

2. DETAILED NOTES CONCERNING THE FUNDS (Continued)

D. Long-term Debt

The City's long-term debt and amounts to be repaid from business-type activities are described below.

On June 22, 1999, the Authority issued a note payable to Rural Development, USDA, in the amount of \$1,878,000 for water system improvements. Interest is 4.50% on the note and the note is to be paid in 480 monthly installments in the amount of \$8,451 per month.

On April 16, 2009, the Authority issued a note payable to Citizens Security Bank, Wetumka, Oklahoma, in the amount of \$27,023 for the purchase of a police car. Interest is 5.75% on the note. The note is to be paid in 36 monthly installments, with monthly payments being \$820. The note is secured by the property purchased.

On April 16, 2009, the Authority issued a note payable to Citizens Security Bank, Wetumka, Oklahoma, in the amount of \$50,180 for a bucket truck. Interest is 5.75% on the note. The note is to be paid in 60 monthly installments, with monthly payments being \$966. The note is secured by business assets.

On April 28, 2010, the Authority issued a note payable to Citizens Security Bank, Wetumka, Oklahoma, in the amount of \$12,763 for a lawnmower. Interest is set by the bank. The note is to be paid in 12 monthly installments, with monthly payments being \$963. The note is secured by business assets. This note was paid off during the current year.

The City is not obligated in any manner for the debt of its component units or trusts. The water system, including all of the proceeds, revenue, water charges, assessments and income of all kinds and nature together with contract rights, accounts receivable and general intangibles have been pledged as collateral to secure these notes. The note agreements call for monthly payments to be made toward debt retirement. The following is a summary of long-term debt transactions of the proprietary fund:

Note Payable:	Balance 6/30/2010	Additions	Reductions	Balance 6/30/2011	Current Portion
Rural Development	1,547,306	-	32,443	1,514,863	33,937
Citizens Security-Police Car	17,067	-	9,085	7,982	7,982
Citizens Security-Bucket Truck	39,734	-	9,528	30,206	10,122
Citizens Security-Lawnmower	11,198	-	11,198	-	-
Total	<u>\$ 1,615,305</u>	<u>\$ -</u>	<u>\$ 62,254</u>	<u>\$ 1,553,051</u>	<u>\$ 52,041</u>

CITY OF WETUMKA
Wetumka, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011

2. DETAILED NOTES CONCERNING THE FUNDS (Continued)

D. Long-term Debt (Continued)

The annual debt service requirements to maturity for business-type activities, including principal and interest, for long-term debt are as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 52,041	\$ 69,157	\$ 121,198
2013	46,216	66,789	113,005
2014	46,493	64,531	111,024
2015	38,833	62,579	101,412
2016	40,617	60,795	101,412
2017-2021	232,848	274,212	507,060
2022-2026	291,478	215,582	507,060
2027-2031	364,870	142,190	507,060
2032-2036	439,655	50,349	490,004
Totals	<u>\$ 1,553,051</u>	<u>\$ 1,006,184</u>	<u>\$ 2,559,235</u>

3. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health benefits; unemployment; and natural disasters. The City purchases commercial insurance to cover these and other risks. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

B. Contingent Liabilities

The City is a defendant in ongoing litigation and various legal actions arising from normal governmental activities. Although most of such actions are covered by insurance, certain actions might have some degree of exposure to the City. The outcome of these lawsuits is not presently determinable, and it is not known if the resolution of these matters will have a material adverse effect on the financial condition of the City.

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 which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

CITY OF WETUMKA
Wetumka, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011

3. OTHER INFORMATION (Continued)

C. Employee Retirement System and Plans

Oklahoma Police Pension and Retirement Fund

All City police department employees hired before age 45 are covered by a statewide cost sharing multi-employer defined benefit plan adopted under Oklahoma Statutes. This plan is operated and administered by the Oklahoma Police Pension and Retirement System (OPPRS). Under this plan, police department personnel contribute 8% of base salary and the City contributes an additional 13.0%. The OPPRS issue publicly available financial reports that include financial statements and required supplementary information for the fund. These reports may be obtained by writing to the Oklahoma Police Pension and Retirement System, 101 NW 63rd Street, Suite 305, Oklahoma City, OK 73116-7335, or by calling 1-800-347-6552.

The required contributions from the City for this plan were \$11,477, \$14,876 and \$13,602 for 2009, 2010 and 2011, respectively. The required contribution was fully contributed. At June 30, 2011 the system held no related-party investments of the City or of its related entities.

Oklahoma Fire Pension and Retirement Fund

The City is required to make annual contributions of \$60 per active volunteer fireman to the Oklahoma Fire Pension and Retirement System (OFPRS). This contribution covers a portion of the cost of benefits that will be paid to vested volunteer firemen. Additional funding comes from a percentage on all taxes collected on premiums collected by insurance companies and an appropriation by the State of Oklahoma.

The required contributions from the City for this plan were \$1,080, \$1,080 and \$1,080 for 2009, 2010 and 2011, respectively. The required contribution was fully contributed. At June 30, 2011 the system held no related-party investments of the City or of its related entities.

Description of Plan

The City's defined benefit pension plan, the Oklahoma Municipal Retirement Fund Employee Retirement System of Wetumka, Oklahoma (the Plan), provides retirement and disability benefits and death benefits to plan members and beneficiaries. All regular, full-time City employees not covered by other plans are required to participate in the Plan. Effective July 1, 1993, employees, who retire at age 65 or completion of ten years of service, if later, are entitled to an annual retirement benefit, payable monthly in an amount equal to 2.25% of final average compensation, multiplied by the number of years of credited service. Final average compensation is defined as the average of the five highest consecutive annual salaries out of the last ten calendar years of service. The Plan operates as a trust maintained by the Oklahoma Municipal Retirement Fund (OMRF), an agent multiple-employer pension plan. OMRF Board of Trustees retains BankOne as custodian to hold the Plan assets which are invested by various professional managers. OMRF issues a publicly available financial report that includes financial statements and required supplementary information for the fund. That report may be obtained by writing to Oklahoma Municipal Retirement System, 525 Central Park Drive, Oklahoma City, OK 73105, or by calling 1-888-394-6673.

Funding Policy

The required contribution rate for the 2010-2011 plan year was 27.09% of each participant's payroll. The members are not required nor permitted to contribute to the plan. The required contribution rate changes each year, reflecting the investment earnings of the OMRF fund the demographic experience of the participant group. Since the employee contribution rate is fixed by the terms of the plan, the City's required contribution rate is the amount necessary to bring the total contribution rate to at least the total required contribution rate. The total salary as reported on Form W-2, paid to the employee during the year is used in computing the costs.

CITY OF WETUMKA
Wetumka, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2011

3. OTHER INFORMATION (Continued)

C. Employee Retirement System and Plan (Continued)

Annual Pension Cost

The City's annual pension cost of \$87,562 was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2010 actuarial valuation. The liabilities and costs were determined using the aggregate entry age normal cost method, considering the unfunded past service requirements to be the excess of the present value of all benefits over the present value of future normal costs and current assets. The actuarial assumptions included (a) 7.5% investment rate of return (net of administrative expenses) and (b) projected salary increases per year are based rates by age. The actuarial value of OMRF assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments by factoring in individual period adjustments, if any, for the current period and each of the nine preceding periods.

The contribution from the City for this plan was \$80,909, \$87,036 and \$87,562 for 2009, 2010 and 2011, respectively.

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Value of Assets</u>	<u>Asset Valuation Basis</u>	<u>Actuarial Accrued Liability (AAL)*</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>
1/1/2001	\$ 426,863	Actuarial	\$ 856,266	\$ 429,403	49.9%
1/1/2002	483,328	Actuarial	909,879	426,551	53.1%
1/1/2003	522,734	Actuarial	1,000,955	478,221	52.2%
1/1/2004	596,681	Actuarial	1,109,186	512,505	53.8%
1/1/2005	674,358	Actuarial	1,331,751	657,393	50.6%
1/1/2006	727,241	Actuarial	1,552,688	825,447	46.8%
1/1/2007	813,912	Actuarial	1,604,551	790,639	50.7%
1/1/2008	881,042	Actuarial	1,482,791	601,749	59.4%
1/1/2009	845,616	Actuarial	1,551,508	705,892	54.5%
1/1/2010	896,470	Actuarial	1,646,115	749,645	54.5%

* Covered payroll is the total annualized rate of pay as of the valuation date based on actual pay for the preceding year.

D. Other Post-Employment Benefits

City does not provide post-retirement benefit options for health care, prescription drug, dental and vision benefits to retired employees and their dependents. The only benefits that are provided are in accordance with the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). The relationship for these benefits is not formalized in a contract or plan document, only a few sentences in the administrative policy. As of June 30, 2011, only recent retiring employees are receiving benefits under COBRA.

4. SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 18, 2011, which is the date the financial statements were available to be issued and have determined that no additional information needs to be added to the financial statements.

CITY OF WETUMKA
Wetumka, Oklahoma

REQUIRED SUPPLEMENTAL INFORMATION
June 30, 2011

CITY OF WETUMKA
REQUIRED SUPPLEMENTAL INFORMATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP BUDGETARY BASIS) AND ACTUAL
GOVERNMENTAL FUNDS
Year Ended June 30, 2011
(Unaudited)

GENERAL FUND

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original Budget	Final Budget		
Revenues:				
Cemetery	\$ 6,202	\$ 6,202	\$ 30,643	\$ 24,441
Cigarette taxes	-	-	3,657	3,657
Franchise taxes	12,527	12,527	10,719	(1,808)
Intergovernmental programs	15,177	15,177	30,679	15,502
Fines and forfeits	25,655	25,655	24,692	(963)
Licenses and permits	12,048	12,048	9,034	(3,014)
Sales and use taxes	87,965	87,965	94,904	6,939
Oil production	10,851	10,851	9,089	(1,762)
Donations and other	41,733	73,119	18,686	(54,433)
Total revenues	<u>212,158</u>	<u>243,544</u>	<u>232,103</u>	<u>(11,441)</u>
Expenditures:				
Current:				
General government	261,162	261,162	249,216	11,946
Public safety	276,496	276,496	262,688	13,808
Cultural and recreational	104,500	135,886	123,196	12,690
Community development	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	<u>642,158</u>	<u>673,544</u>	<u>635,100</u>	<u>38,444</u>
Excess of revenue over (under) expenditures	(430,000)	(430,000)	(402,997)	27,003
Other financing sources (uses):				
Operating transfers in (out)	430,000	430,000	420,961	(9,039)
Net changes in fund balance	-	-	17,964	17,964
Fund balance at beginning of year	<u>114,080</u>	<u>114,080</u>	<u>114,080</u>	<u>-</u>
Fund balance at end of year	<u>\$ 114,080</u>	<u>\$ 114,080</u>	<u>\$ 132,044</u>	<u>\$ 17,964</u>

CITY OF WETUMKA
 REQUIRED SUPPLEMENTAL INFORMATION
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET (GAAP BUDGETARY BASIS) AND ACTUAL
 GOVERNMENTAL FUNDS
 Year Ended June 30, 2011
 (Unaudited)

SPECIAL REVENUE FUNDS

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original Budget	Final Budget		
Revenues:				
Gas excise taxes	\$ 1,895	\$ 1,895	\$ 2,024	\$ 129
Interest	190	190	197	7
Intergovernment programs	10,277	26,277	28,493	2,216
Sales and use taxes	26,390	26,390	25,219	(1,171)
Street assessments	25,067	25,067	24,395	(672)
Donations and other	3,803	4,503	379	(4,124)
Total revenues	<u>67,622</u>	<u>84,322</u>	<u>80,707</u>	<u>(3,615)</u>
Expenditures:				
Current:				
Public safety	-	16,000	11,797	4,203
Highways and roads	130,172	130,172	122,394	7,778
Cultural and recreational	3,803	4,503	4,493	10
Capital outlay	151,647	151,647	43,941	107,706
Total expenditures	<u>285,622</u>	<u>302,322</u>	<u>182,625</u>	<u>119,697</u>
Excess of revenue over (under) expenditures	(218,000)	(218,000)	(101,918)	116,082
Other financing sources (uses):				
Operating transfers in (out)	<u>18,000</u>	<u>18,000</u>	<u>18,000</u>	<u>-</u>
Net changes in fund balance	(200,000)	(200,000)	(83,918)	116,082
Fund balance at beginning of year	<u>377,134</u>	<u>377,134</u>	<u>377,134</u>	<u>-</u>
Fund balance at end of year	<u>\$ 177,134</u>	<u>\$ 177,134</u>	<u>\$ 293,216</u>	<u>\$ 116,082</u>

CITY OF WETUMKA
 REQUIRED SUPPLEMENTAL INFORMATION
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET (GAAP BUDGETARY BASIS) AND ACTUAL
 GOVERNMENTAL FUNDS
 Year Ended June 30, 2011
 (Unaudited)

CAPITAL PROJECTS FUND

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original Budget	Final Budget		
Revenues:				
Interest	\$ 139	\$ 139	\$ 133	\$ (6)
Sales and use taxes	149,540	149,540	142,912	(6,628)
Wastewater	22,171	22,171	21,212	(959)
Donations	-	-	32,944	32,944
Total revenues	<u>171,850</u>	<u>171,850</u>	<u>197,201</u>	<u>25,351</u>
Expenditures:				
General government	67,620	67,620	26,947	40,673
Community development	-	-	-	-
Electric service	144,064	144,064	72,760	71,304
Capital outlay	22,171	22,171	-	22,171
Total expenditures	<u>233,855</u>	<u>233,855</u>	<u>99,707</u>	<u>134,148</u>
Excess of revenue over (under) expenditures	(62,005)	(62,005)	97,494	159,499
Other financing sources (uses):				
Operating transfers in (out)	<u>(87,995)</u>	<u>(87,995)</u>	<u>(84,928)</u>	<u>3,067</u>
Net changes in fund balance	(150,000)	(150,000)	12,566	162,566
Fund balance at beginning of year	<u>404,885</u>	<u>404,885</u>	<u>404,885</u>	<u>-</u>
Fund balance at end of year	<u>\$ 254,885</u>	<u>\$ 254,885</u>	<u>\$ 417,451</u>	<u>\$ 162,566</u>

CITY OF WETUMKA
Wetumka, Oklahoma

NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
For the Fiscal Year Ended June 30, 2011
(Unaudited)

BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP) for all governmental funds. The enterprise funds and internal service fund adopt budgets on the non-GAAP basis wherein service fees, bond and note proceeds are recognized as revenue, principal payments on debt and capital expenditures are recognized as expenses, and depreciation expense is not budgeted. Annual appropriated budgets are not adopted for the agency funds. Budgetary data for enterprise funds, internal service, and permanent funds are not presented in these financial statements.

Prior to July 1, the City Manager (not an elected official) submits a proposed operating budget for the fiscal year commencing July 1, to the Commissioners (elected officials). Public hearings are held at regular or special meetings to obtain taxpayer input. Prior to July 1, the budget is legally enacted through passage of a budget resolution. The operating budget, for all budgeted funds, includes proposed expenditures and the means of financing. Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and class as follows: personal services, maintenance and operations, capital outlay, transfers, and debt service. This constitutes the legal level of control. Expenditures may not exceed appropriations at this level. A more detailed budget is used for operating purposes. All budget revisions at the legal level are subject to final approval by the City Council. Within these control levels, management may transfer appropriations without council approval. Revisions to the budget were made during the year in accordance with the provisions of the Oklahoma Statutes. All annual appropriations lapse at year-end.

The City uses encumbrance accounting. Encumbrances are recorded when purchase orders are issued but generally are not considered expenditures until liabilities for payments are incurred. At year-end, open purchase orders are reviewed and payments are made on those where the receipt of goods and services is eminent. The remaining purchase orders (and encumbrances) are cancelled and reissued during the following year. There are no outstanding encumbrances at year-end.

**CITY OF WETUMKA
Wetumka, Oklahoma**

**SUPPLEMENTAL INFORMATION
June 30, 2011**

CITY OF WETUMKA
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 June 30, 2011

	Special Revenue		Capital Projects			Permanent Funds Cemetery Perpetual Care	Total Non-Major Governmental Funds
	Street & Alley	Fire Dept Grants	Library	Equipment	Water Improvement		
Assets:							
Cash and equivalents	\$ -	\$ 5,340	2,992	5,600	-	22,518	\$ 36,450
Taxes receivable	2,275	-	-	-	13,838	2,768	18,881
Restricted cash:							
Cash and investments	-	-	-	-	-	-	-
Due from others	-	-	-	-	-	-	36,548
Total assets	\$ 2,275	\$ 5,340	2,992	5,600	13,838	25,286	\$ 91,879
Liabilities:							
Accounts payable	\$ 614	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 614
Due to others	-	-	-	-	-	-	-
Cash overdraft	43,674	-	-	-	-	-	43,674
Total liabilities	44,288	-	-	-	-	-	44,288
Fund balances:							
Restricted	-	5,335	2,992	5,600	13,815	25,266	89,556
Committed	-	5	-	-	23	20	48
Unassigned	(42,013)	-	-	-	-	-	(42,013)
Total fund balances	(42,013)	5,340	2,992	5,600	13,838	25,286	47,591
Total liabilities and fund balances	\$ 2,275	\$ 5,340	2,992	5,600	13,838	25,286	\$ 91,879

CITY OF WETUMKA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2011

	Special Revenue			Capital Projects			Permanent Funds	Total Non-Major Governmental Funds
	Street & Alley	Fire Dept Grants	Library	Equipment	Water Improvement	General Improvement		
Revenues:								
Taxes	\$ 2,024	\$ -	\$ -	\$ -	\$ 84,065	\$ 16,814	\$ -	\$ 102,903
Intergovernmental programs	8,837	15,752	3,904	-	-	-	-	28,493
Donations	-	-	379	-	-	-	-	379
Interest	-	5	-	-	23	20	-	48
Miscellaneous income	-	-	-	-	-	-	-	-
Lot sales	-	-	-	-	-	-	956	956
Total revenues	\$ 10,861	\$ 15,757	\$ 4,283	\$ -	\$ 84,088	\$ 16,834	\$ 956	\$ 132,779
Expenditures:								
General government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 26,947	\$ -	\$ 26,947
Public safety	-	11,797	-	-	-	-	-	11,797
Highways and roads	45,868	-	-	-	-	-	-	45,868
Cultural & recreation	-	-	4,493	-	-	-	-	4,493
Community development	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-
Total expenditures	45,868	11,797	4,493	-	-	26,947	-	89,105
Excess of revenues over (under) expenditures	(35,007)	3,960	(210)	-	84,088	(10,113)	956	43,674
Other financing uses:								
Operating transfers in (out)	18,000	-	-	-	(84,928)	-	-	(66,928)
Excess of revenues over (under) expenditures & transfers	(17,007)	3,960	(210)	-	(840)	(10,113)	956	(23,254)
Fund balance - beginning of year	(25,006)	1,380	3,202	5,600	14,678	35,399	35,592	70,845
Fund balance - end of year	\$ (42,013)	\$ 5,340	\$ 2,992	\$ 5,600	\$ 13,838	\$ 25,286	\$ 36,548	\$ 47,591

**CITY OF WETUMKA
Wetumka, Oklahoma**

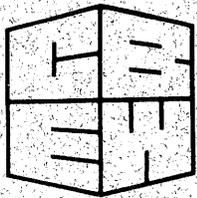
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ending June 30, 2011**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Program or Award Amount</u>	<u>Revenue Collected</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Housing and Urban Development:</u>				
<u>Passed through the Oklahoma Department of Commerce</u>				
Contract 12540 - CDBG	14.228	<u>69,000</u>	<u>69,000</u>	<u>69,000</u>
<u>U.S. Department of Homeland Security:</u>				
<u>Passed through the Oklahoma Department of Emergency Management</u>				
Contract FEMA-1707-DR-OK	97.039	<u>31,425</u>	<u>31,425</u>	<u>31,425</u>
Total of Expenditures of Federal Awards		<u>\$ 100,425</u>	<u>\$ 100,425</u>	<u>\$ 100,425</u>

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

CITY OF WETUMKA
Wetumka, Oklahoma

REPORT REQUIRED BY *GOVERNMENT AUDITING STANDARDS*
June 30, 2011



CBEW
Professional
Group, LLP

Certified Public Accountants

206 N. HARRISON ● P.O. BOX 790 ● CUSHING, OKLAHOMA 74023 ● 918-225-4216 ● FAX 918-225-4315

DON K. ETHRIDGE, CPA
WALTER H. WEBB, CPA
JANE FRAZIER, CPA
CHARLES E. CROOKS, CPA
TRISHA J. RIEMAN, CPA

**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**

November 18, 2011

Honorable Board of City Commissioners
City of Wetumka
Wetumka, Oklahoma

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Wetumka, Oklahoma, (City) as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 18, 2011. The report on governmental and business-type activities was qualified because of the lack of fixed asset records. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The City did not present the Management's Discussion and Analysis required by the Governmental Accounting Standards Board.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City'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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting 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. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting. The findings reference numbers are 11-1 and 11-2. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

City of Wetumka
November 18, 2011

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 11-3, 11-4 and 11-5.

We also noted certain additional matters that we have reported to management of the City in a separate letter dated November 18, 2011.

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, all applicable federal and state agencies, and those other Governments from which federal financial assistance was received and is not intended to be and should not be used by anyone other than these specified parties.


CBEW Professional Group, LLP
Certified Public Accountants

CITY OF WETUMKA
Wetumka, Oklahoma

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2011

11-1. Internal Control – Financial Statements

Criteria: The City's management is responsible for internal controls over financial reporting. This includes controls over the fair and complete presentation of the City's annual financial statements in accordance with GAAP. The preparation 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 City 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 City'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 City's internal controls. However, as required by professional standards the City 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. A version of this finding was also noted in 2010.

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 City's management may lack certain expertise relative to preparing GAAP financial statements, professional standards do not require that the management or the 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 City 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 City 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.

11-2. Internal Control – Segregation of Duties

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 city'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 reconciles the monthly bank statements.

CITY OF WETUMKA
Wetumka, Oklahoma

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2011

Cause: The city'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 depositing activities, including misappropriation of assets, could occur and not be detected within a timely basis.

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 segregation of duties, such as providing increased management oversight and an independent reconciliation of accounts. For example, the entity might consider soliciting the assistance of independent volunteer labor to perform certain functions including performing compensating procedures where applicable.

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

11-3. Compliance – Meter Deposit Monies

Criteria: As per **Oklahoma State Statutes §11-35-102.1 – Disposition of proceeds from investment of meter deposit funds** – The investment of meter deposit funds by the municipality shall in no manner impair its obligation to any person, firm or corporation, to refund in full **any or all** deposits theretofore or thereafter made.

Condition: The City has co-mingled all but \$3,000 of its meter deposit funds into the pooled cash account of the City. The meter deposit liability is \$91,975, which is considered customer monies. The other \$87,975 has been used for operating expenses in the pooled cash bank account. The reconciled bank account for pooled cash has a balance at June 30, 2011 of a *negative* \$97,376.28. Therefore, all of the meter deposits in pooled cash have been used and are no longer available at this time.

Cause: The City has operated at a loss for many years and has relied on using the meter deposit monies that were lumped into pooled cash, to pay for everyday operating expenses.

Effect or Potential Effect: As a result of this condition, the City is not in compliance with Oklahoma State Statutes and will be unable to refund, if needed, all of the meter deposits to customers of the Wetumka Municipal Authority.

Recommendation: The City should start depositing monies into the meter deposit bank account to equal the total meter deposit liability of the Wetumka Municipal Authority.

Responsible Official's Response: The City concurs with the recommendation, and will strive to deposit all of the monies equal to the meter deposit liability.

11-4. Compliance – Perpetual Care Funds

Criteria: As per **Oklahoma State Statutes §11-26-201. Trusts for special care of specified lots – Perpetual Care Fund – Use.** Donations, deposits or bequests may be made in trust for the special care of specified lots, monuments or mausoleums in any cemetery. These funds shall be segregated and set aside as a permanent fund to be known as the "Perpetual Care Fund". A separate account shall be kept of each amount so deposited, donated and bequeathed for special care of specified lots. The perpetual care fund may be invested in like manner as the cemetery care fund, and **only the interest** derived from the fund shall be used in the care,

CITY OF WETUMKA
Wetumka, Oklahoma

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2011

maintenance and repair of such lots, monuments and mausoleums, unless otherwise specified by the donor.

Condition: The City has co-mingled all of the \$36,548.48 of its perpetual care fund monies into the pooled cash account of the City. The \$36,548.48 has been used for operating expenses in the pooled cash bank account. The reconciled bank account for pooled cash has a balance at June 30, 2011 of a *negative* \$97,376.28. Therefore, all of the perpetual care fund monies in pooled cash have been used and are no longer available at this time.

Cause: The City has operated at a loss for many years and has relied on using the perpetual care fund monies that were lumped into pooled cash, to pay for everyday operating expenses.

Effect or Potential Effect: As a result of this condition, the City is not in compliance with Oklahoma State Statutes and has not kept a separate account to keep these monies.

Recommendation: The City should start depositing monies into a separate bank account to equal the audited balance of the Perpetual Care Fund cash.

Responsible Official's Response: The City concurs with the recommendation, and will strive to deposit all of the monies into a separate bank account.

11-5. Compliance – Reserve Funds for Rural Development

Criteria: As per **Promissory Note Section 4 Part (d) Reserve Account – with the United States Department of Agriculture – Rural Development**. From the remaining funds in the General Account, there shall be set aside into the Reserve Account the sum of *10% of the monthly installment* ($\$845.10 = 8,451 * 10\%$) each month until there is accumulated in that account the *sum of the annual installment* ($\$101,412 = 8,451 * 12$), after which deposits may be suspended, except to replace withdrawals. When necessary, disbursements may be used for payments due on the Note if sufficient funds are not available in the Debt Service Account. **Only with prior written approval of Rural Development, funds may be withdrawn for** (1) paying the cost of repairing or replacing any damage to the Facility which may have been caused by a catastrophe or (2) making extension or improvements to the Facility.

Condition: The City has co-mingled the \$106,482.60 of its reserve fund monies that is shown on their books with the water improvement fund, in which \$90,816.73 has been used for water improvement. The bank account balance is actually reconciled to \$15,665.87. This money can only be used for water improvement with a written approval from Rural Development. No written approval was found. Also, since the reserve fund has not reached the required \$101,412, the City is required to continue to make the \$845.10 payments per month until it has been reached. The City has not continued to make the required monthly installments at this time.

Cause: The City has operated at a loss for many years and has relied on using the reserve monies to pay for water improvement expenses without prior written approval from Rural Development.

Effect or Potential Effect: As a result of this condition, the City is not in compliance with Promissory Note with Rural Development and has not been making the required monthly installment.

Recommendation: The City should start making the required monthly installment and not use this cash until prior written approval has been received from Rural Development.

Responsible Official's Response: The City concurs with the recommendation, and will strive to start depositing the required monthly installment and won't use any reserve fund monies until prior written approval has been received from Rural Development.