

**Town of Wellston, Oklahoma**  
**Financial Statements and Report**  
**of Independent Accountants**  
**As of and For the Year Ending**  
**June 30, 2012**

## Table of Contents

Report of Independent Accountant .....	1
Government Wide Financial Statements	
Statement of Net Assets .....	2
Statement of Activities .....	3
Fund Financial Statements	
Balance Sheet-Governmental Funds .....	4
Statement of Revenues, Expenditures and Changes in in Fund Balances-Governmental Funds .....	5
Statement of Net Assets-Proprietary Funds .....	6
Statement of Revenue over Expenditures and Changes in Retained Earnings-Proprietary Funds .....	7
Statement of Cash Flows.....	8
Notes to the Basic Financial Statements .....	9-15
Required Supplementary Information	
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards .....	16-17
Schedule of Findings and Responses .....	18-19

# Casey J. Russell CPA, Inc.

Casey J. Russell, C.P.A., M.B.A.  
Autumn L. Williams, C.P.A., Esq.  
Member AICPA & OSCPA

2812 NW 57<sup>th</sup> St., Ste. 102  
Oklahoma City, Oklahoma 73112

Phone: (405) 607-8743  
Fax: (405) 607-8744  
Email: caseycpa@hotmail.com

## Report of Independent Accountants

To the Board of Trustees  
Town of Wellston, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Wellston, Oklahoma as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type *activities* and the aggregate remaining fund information of the Town of Wellston, Oklahoma, as of June 30, 2012, 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 accordance with *Government Auditing Standards*, we have also issued our report dated July 28, 2012 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Management has elected to not present a management, discussion, and analysis, a budget to actual comparison and employee pension and retirement plan information as is required by generally accepted accounting principles in the United States of America.

  
July 28, 2012

**Town of Wellston, Oklahoma**  
**Statement of Net Assets**  
**June 30, 2012**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Current assets:			
Cash in bank - unrestricted	200,430.06	47,831.57	248,261.63
Cash in bank - restricted	45,044.95	74,536.00	119,580.95
Taxes, grants, and utility billing receivables, net	<u>77,053.91</u>	<u>16,294.37</u>	<u>93,348.28</u>
Total current assets	322,528.92	138,661.94	461,190.86
Noncurrent assets:			
Net capital assets	<u>443,268.83</u>	<u>1,720,596.46</u>	<u>2,163,865.29</u>
Total noncurrent assets	<u>443,268.83</u>	<u>1,720,596.46</u>	<u>2,163,865.29</u>
Total assets	<u>\$ 765,797.75</u>	<u>\$ 1,859,258.40</u>	<u>\$ 2,625,056.15</u>
<b>LIABILITIES</b>			
Current liabilities:			
Meter deposits	-	20,200.00	20,200.00
Current portion long term debt	-	51,688.60	51,688.60
Total current liabilities	<u>-</u>	<u>71,888.60</u>	<u>71,888.60</u>
Noncurrent liabilities:			
Bonds and notes	<u>46,508.37</u>	<u>800,382.92</u>	<u>846,891.29</u>
Total noncurrent liabilities	<u>46,508.37</u>	<u>800,382.92</u>	<u>846,891.29</u>
Total liabilities	<u>46,508.37</u>	<u>872,271.52</u>	<u>918,779.89</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	396,760.46	868,524.94	1,265,285.40
Restricted	45,044.95	74,536.00	119,580.95
Unrestricted	<u>277,483.97</u>	<u>43,925.94</u>	<u>321,409.91</u>
Total net assets	<u>719,289.38</u>	<u>986,986.88</u>	<u>1,706,276.26</u>
Total liabilities and net assets	<u>\$ 765,797.75</u>	<u>\$ 1,859,258.40</u>	<u>\$ 2,625,056.15</u>

**Town of Wellston  
Statement of Activities  
For the Year Ending June 30, 2012**

Functions/Programs Primary government	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	
Governmental activities:						
Streets maintenance	17,454.28	-	182,765.39	165,311.11	-	165,311.11
Fire department	14,647.64	4,912.77	-	(9,734.87)	-	(9,734.87)
Ambulance	22,722.02	2,401.23	-	(20,320.79)	-	(20,320.79)
Police department	162,275.07	20,806.93	-	(141,468.14)	-	(141,468.14)
General government	138,501.67	-	-	(138,501.67)	-	(138,501.67)
Court	15,214.98	-	-	(15,214.98)	-	(15,214.98)
Cemetery	7,655.54	6,745.90	-	(909.64)	-	(909.64)
Miscellaneous	4,152.55	31,868.35	-	27,715.80	-	27,715.80
Total governmental activities	382,623.75	66,735.18	182,765.39	(133,123.18)	-	(133,123.18)
Business-type activities						
Water department	252,044.81	121,733.36	-	-	(130,311.45)	(130,311.45)
Sewer department	48,818.73	44,542.70	-	-	(4,276.03)	(4,276.03)
Garbage department	57,431.12	82,422.00	-	-	24,990.88	24,990.88
Miscellaneous	24,490.44	50,466.45	-	-	25,976.01	25,976.01
Total business-type activities	382,785.10	299,164.51	-	-	(83,620.59)	(83,620.59)
Total primary government	\$ 765,408.85	\$ 365,899.69	\$ 182,765.39	\$ (133,123.18)	\$ (83,620.59)	\$ (216,743.77)
General revenues:						
Taxes:						
Sales taxes				271,998.69	-	271,998.69
Other taxes				73,480.40	-	73,480.40
Interest income				2,151.38	1,057.93	3,209.31
Total general revenues				347,630.47	1,057.93	348,688.40
Change in net assets				214,507.29	(82,562.66)	131,944.63
Net assets - beginning				504,782.09	1,069,549.54	1,574,331.63
Net assets - ending				\$ 719,289.38	\$ 986,986.88	\$ 1,706,276.26

**Town of Wellston, Oklahoma  
Balance Sheet  
Governmental Funds  
June 30, 2012**

	General Fund	Cemetery Fund	Total Governmental Funds
<b>ASSETS</b>			
Cash in bank	99,735.68	100,694.38	200,430.06
Cash in bank - restricted	45,044.95	-	45,044.95
Taxes and Grants receivables, net	77,053.91	-	77,053.91
Total assets	<u>\$ 221,834.54</u>	<u>\$ 100,694.38</u>	<u>\$ 322,528.92</u>
<b>LIABILITIES</b>			
Accounts payable	-	-	-
<b>FUND BALANCES</b>			
Unassigned	176,789.59	-	176,789.59
Assigned	-	100,694.38	100,694.38
Restricted	45,044.95	-	45,044.95
Total net assets	<u>221,834.54</u>	<u>100,694.38</u>	<u>322,528.92</u>
Total liabilities and net assets	<u>\$ 221,834.54</u>	<u>\$ 100,694.38</u>	<u>\$ 322,528.92</u>

***Reconciliation of Total Governmental Fund Balance  
to Net Assets of Governmental Activities  
June 30, 2012***

*Total Governmental Fund Balances* \$ 322,528.92

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

*Capital assets used in governmental activities are  
not financial resources and therefore are not  
reported in the funds.* 443,268.83

*Long-term liabilities, including bonds payable, are  
not due and payable in the current period and  
therefore are not reported in the funds.* (46,508.37)

*Net Assets of Governmental Activities* \$ 719,289.38

**Town of Wellston, Oklahoma**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2012**

	General Fund	Cemetery Fund	Total Governmental Funds
<b>Revenues:</b>			
Taxes	345,479.09	-	345,479.09
Charges for services	7,314.00	6,745.90	14,059.90
Fines	20,806.93	-	20,806.93
Grants	182,765.39	-	182,765.39
Interest	271.20	1,880.18	2,151.38
Other	31,868.35	-	31,868.35
<b>Total revenues</b>	<b>588,504.96</b>	<b>8,626.08</b>	<b>597,131.04</b>
<b>Expenditures:</b>			
Streets maintenance	17,454.28	-	17,454.28
Fire department	11,583.43	-	11,583.43
Ambulance	7,532.55	-	7,532.55
Police department	181,073.05	-	181,073.05
Court	15,214.98	-	15,214.98
Cemetery	-	7,655.54	7,655.54
General government	133,250.34	-	133,250.34
Debt Service	20,189.45	-	20,189.45
Capital Improvements	192,309.39	-	192,309.39
Miscellaneous	4,152.55	-	4,152.55
<b>Total expenditures</b>	<b>582,760.02</b>	<b>7,655.54</b>	<b>590,415.56</b>
Excess revenues over (under) expenditures	5,744.94	970.54	6,715.48
Capital financing	24,708.25	-	24,708.25
Excess revenues over (under) expenditures after	30,453.19	970.54	31,423.73
Fund balances at beginning of year	191,381.35	99,723.84	291,105.19
Fund balances at end of year	<u>\$ 221,834.54</u>	<u>\$ 100,694.38</u>	<u>\$ 322,528.92</u>

***Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities for the Year Ended June 30, 2012***

<i>Net change in fund balances-total government funds</i>	\$ 31,423.73
<i>Funds borrowed that were recorded as capital financing in the fund financial statements but recorded as a long term liability in the government wide financial statements</i>	(24,708.25)
<i>Principal paid on long term debt recorded as an expense in fund financial statements but as a reduction of debt in the government wide statements</i>	20,189.45
<i>Purchase of fixed assets recorded as an expense in the fund financial statements but recorded as an addition to fixed assets in the government wide statements</i>	217,017.64
<i>Depreciation expense recorded in the government wide financial statements but not recorded in the individual fund financial statements</i>	<u>(29,415.28)</u>
<i>Change in net assets of governmental activities</i>	<u>\$ 214,507.29</u>

The accompanying notes are an integral part of these financial statements

**Town of Wellston, Oklahoma**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2012**

ASSETS

Current assets:

Cash in bank - unrestricted	47,831.57
Cash in bank - restricted	74,536.00
Utility billing receivable, net	<u>16,294.37</u>
Total current assets	138,661.94

Noncurrent assets:

Net capital assets	<u>1,720,596.46</u>
Total noncurrent assets	<u>1,720,596.46</u>
Total assets	<u><u>\$ 1,859,258.40</u></u>

LIABILITIES

Current liabilities:

Meter deposits	20,200.00
Current portion long term debt	<u>51,688.60</u>
Total current liabilities	71,888.60

Noncurrent liabilities:

Bonds and notes	<u>800,382.92</u>
Total noncurrent liabilities	<u>800,382.92</u>
Total liabilities	872,271.52

NET ASSETS

Invested in capital assets, net of related debt	868,524.94
Unrestricted	<u>118,461.94</u>
Total net assets	<u>986,986.88</u>
Total liabilities and net assets	<u><u>\$ 1,859,258.40</u></u>

**Town of Wellston, Oklahoma**  
**Statement of Revenues Over Expenditures and Changes in Retained Earnings**  
**Proprietary Fund Type**  
**For the Year Ended June 30, 2012**

Operating Revenues:	
Water sales	\$ 121,733.36
Sewer fees	44,542.70
Garbage fees	82,422.00
Miscellaneous	50,466.45
Total operating revenues	<u>299,164.51</u>
Operating Expenses:	
Water department	252,044.81
Sewer department	48,818.73
Garbage department	57,431.12
Miscellaneous	24,490.44
Total operating expenses	<u>382,785.10</u>
Operating income (loss)	(83,620.59)
Non-operating revenues (expenses):	
Interest income	<u>1,057.93</u>
Net non-operating revenues (expenses)	<u>1,057.93</u>
Change in net assets before transfers	(82,562.66)
Transfers in/out	<u>-</u>
Change in net assets after transfers	(82,562.66)
Net assets at beginning of year	<u>1,069,549.54</u>
Net assets at end of year	<u><u>\$ 986,986.88</u></u>

**Town of Wellston**  
**Statement of Cash Flows - Proprietary Fund**  
**For the Year Ending June 30, 2012**

Cash flows from operating activities	
Cash received from customers	\$ 251,950.90
Cash received from rental activities	50,466.45
Cash received in interest on deposits	1,057.93
Cash paid to employees	(56,746.35)
Cash paid to suppliers	(158,681.92)
Cash paid in interest expense	(44,890.69)
Net cash provided by operating activities	<u>43,156.32</u>
Cash flows from capital and related financing activities	
Principal paid on capital debt	<u>(53,497.31)</u>
Net cash provided (used) for capital and related financing activities	<u>(53,497.31)</u>
Net increase (decrease) in cash and cash equivalents	(10,340.99)
Cash and cash equivalents at beginning of year	<u>132,708.56</u>
Cash and cash equivalents at end of year	<u><u>\$ 122,367.57</u></u>
Reconciliation of operating income (loss) to net cash provided	
(used) by operating activities:	
Operating income (loss)	(82,562.66)
Adjustments to reconcile change in net assets to net cash provided	
by operating activities	
Depreciation expense	122,466.14
(Increase) decrease in accounts receivable	3,252.84
Net cash provided (used) by operating activities	<u><u>\$ 43,156.32</u></u>

## **Note 1-Summary of Significant Accounting Policies**

### Financial Reporting Entity

The Town of Wellston, Oklahoma is a statutory town Government under Oklahoma Statutes. The Town provides the following services: public safety, streets and highways, sanitation, public improvements, utilities and general administrative services.

The criteria used to determine which accounting entities, agencies, commissions, boards and authorities are part of the Town's operations include how the budget is adopted, whether debt is secured by general obligation of the Town, the Town's duty to cover any deficits that may occur, and supervision over the accounting functions. Any separate accounting entities would be considered component units. There are no agencies, organizations or activities meeting any of the above criteria that are excluded from the Town's reporting entity. As of June 30, 2012, the Town had only one component unit, the Wellston Public Works Authority.

### Basis of Presentation-Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The Town's funds are grouped into two governmental fund types - general funds and special revenue funds. Proprietary funds include enterprise funds. As of June 30, 2012, the Town had governmental funds of general fund, cemetery care, fixed asset and long term debt. The proprietary funds consisted of the Wellston Public Works Authority.

### Basis of Accounting

#### **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The statement of net assets and the statement of activities display information about the Town, the primary government, as a whole. These statements distinguish between activities that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect and program revenues for each segment of the business-type activities of the Town and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Indirect expenses for centralized services and administrative overhead are allocated among programs, functions and segments using a full cost allocation approach and are presented separately to enhance comparability of direct expenses between governments that allocate direct expenses and those that do not. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the Town.

## FUND FINANCIAL STATEMENTS

Fund financial statements report detailed information about the Town. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

## GOVERNMENTAL FUNDS

All governmental funds are accounted for using modified accrual basis of accounting and the current financial resources measurement focus. Under this basis revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

### Revenue Recognition

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available (i.e., collectible within the current year or within one month of year-end and available to pay obligations of the current period). This includes investment earnings, income taxes withheld by employers, estate taxes, fines and forfeitures and state-levied locally shared taxes (including motor vehicle fees). Reimbursement due for federally funded projects are accrued as revenue at the time the expenditures are made, or when received in advance, deferred until expenditures are made. Other revenues, including licenses and permits, certain charges for services and miscellaneous income are recorded as revenue when received in cash because they are generally not measurable until actually received.

### Expenditure Recognition

The measurement focus of governmental fund accounting is on decrease in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt, which has not matured, are recognized when paid. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

## PROPRIETARY FUNDS

All proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred. Allocation of costs, such as depreciation, are recorded in proprietary funds. The proprietary funds use standards issued by the Financial Accounting Standard Board whenever possible, if no FASB pronouncement is applicable then Government Accounting Standards Board pronouncements are used.

### Cash and Cash Equivalents

For purposes of the statement of cash flows, the Town's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less for the date of acquisition. Restricted cash consists of meter deposits.

### Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditures of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental funds. Encumbrances are not recognized as the equivalent of expenditures; therefore, the reserve for encumbrances is reported as part of the fund balance on the balance sheet. However, it should be noted that the Town did not recognize any outstanding reserves as of June 30, 2012.

### Budget

In accordance with Oklahoma Statutes, Title 68, Section 3002, the Town Council formally adopts annual budgets which include substantially all funds. These annual budgets are adopted on a basis consistent with the guidelines established by the Oklahoma Municipal Code.

Risk Management

Significant losses are covered by commercial insurance for all Town operations.

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.

**Note 2-Deposits with Financial Institutions**

The accounts of the Town are required by state law to be secured by collateral pledged by the financial institution and/or FDIC insurance. The Town of Wellston is considered a separate entity from the Wellston Public Works Authority for FDIC deposit insurance.

In accordance with GASB No. 3, deposits are to be classified into the following three categories:

1. Insured or collateralized with securities held by the entity or by its agent or in the entity's name (Referred to as category 1)
2. Collateralized with securities held by pledging financial institution's trust department or agent in the entity's name. (Referred to as category 2)
3. Uncollateralized, including any bank balance that is collateralized with securities held by the pledging institution, or by its trust department or agent but not in the entity's name. (Referred to as category 3)

All of the town of Wellston's government and enterprise fund cash and investment accounts would be considered as category 1 up to its FDIC limits of \$250,000 for the governmental funds and \$250,000 for the Wellston Public Works Authority. The remaining funds would be categorized as category 3.

**Note 3-Capital Assets and Depreciation**

Capital Asset activity for the year ended June 30, 2012 was as follows:

	Governmental Funds			Ending Balance
	Beginning Balance	Increases	Decreases	
Land	\$ 64,750	-	-	\$ 64,750
Equipment	414,725	217,018	-	631,743
Buildings & Improvements	179,579	-	-	179,579
Total	659,054			876,072
Accumulated Depreciation	(403,387)	(29,415)	-	(432,802)
Net Assets	<u>\$ 255,667</u>			<u>\$ 443,269</u>

As of June 30, 2012, the governmental funds had no capitalized assets that were not being depreciated or had not been depreciated. Depreciation is computed using the straight line method of depreciation over the estimated useful lives of the assets. Assets are recorded at cost or their estimated fair market value for those assets where recorded were not available.

Public Works Authority

	Beginning			Ending
	Balance	Increases	Decreases	Balance
Equipment	\$ 105,480	-	-	\$ 105,480
Post Office	357,049	-	-	357,049
Water System	450,000	-	-	450,000
Sewer System	973,793	-	-	973,793
Water Plant and Line	1,857,403	-	-	1,857,403
<b>Total</b>	<b>3,743,725</b>			<b>3,743,725</b>
Accumulated Depreciation	(1,900,661)	(122,466)	-	(2,023,127)
<b>Net Assets</b>	<b>\$ 1,843,064</b>			<b>\$ 1,720,598</b>

As of June 30, 2012, the Public Works Authority had no capitalized assets that were not being depreciated or had not been depreciated. Depreciation is computed using the straight line method of depreciation over the estimated useful lives of the assets. Assets are recorded at cost or their estimated fair market value for those assets where recorded were not available.

Depreciation was recorded as follows: General Government – \$5,251; Fire Department - \$3,064; Ambulance - \$15,189; Police Department - \$5,910; and Public Works Authority - \$122,466.

**Note 4-Notes Payable**

Wellston Public Works Authority

As of June 30, 2012, the Wellston Public Works Authority had three long-term notes outstanding with the Rural Development, a division of the United States Department of Agriculture. Collateral for these loans are the assets and revenues of the water and sewer utility system.

The first note with Rural Development has an outstanding balance of \$170,567 and carries an interest rate of 5%. The monthly payment amount is \$2,210 and will mature in March 2020. Principal and interest paid on this note during the year was \$18,065 and \$8,455, respectively. The amount of principal and interest needed for the next five years and till maturity by five year increments is as follows:

	Principal	Interest		
2012/2013	18,408	8,112	Balance, Beginning of year	\$ 188,632
2013/2014	19,352	7,170	Principal Paid during year	18,065
2014/2015	20,342	6,180	Balance, End of Year	<u>\$ 170,567</u>
2015/2016	21,382	7,170		
2016/2017	22,476	6,180		
2017/2020	68,607	5,012		
<b>Total</b>	<b>\$ 170,567</b>	<b>\$ 39,824</b>		

The second note with Rural Development has an outstanding balance of \$222,429 and carries an interest rate of 5%. The monthly payment amount is \$1,512 and will mature in June 2031. Principal and interest paid on this note during the year was \$7,508 and \$10,636, respectively. The amount of principal and interest needed for the next five years and till maturity by five year increments is as follows:

	Principal	Interest		
2013/2014	7,186	10,970	Balance, Beginning of year	\$ 229,937
2014/2015	7,553	10,603	Principal Paid during year	7,508
2015/2016	7,940	10,217	Balance, End of Year	<u>\$ 222,429</u>
2016/2017	8,346	9,812		
2017/2018	8,773	9,371		
2018/2022	51,075	39,645		
2022/2027	65,548	25,172		
20217/2031	66,009	6,998		
Total	<u>\$ 222,429</u>	<u>\$ 122,789</u>		

The third note with Rural Development has an outstanding balance of \$328,416 and carries an interest rate of 4.5%. The monthly payment amount is \$1,823 and will mature in June 2037. Principal and interest paid on this note during the year was \$7,811 and \$14,064, respectively. The amount of principal and interest needed for the next five years and till maturity by five year increments is as follows:

	Principal	Interest		
2012/2013	7,246	14,619	Balance, Beginning of year	\$ 326,227
2013/2014	7,578	14,285	Principal Paid during year	7,811
2014/2015	7,927	13,937	Balance, End of Year	<u>\$ 318,416</u>
2015/2016	8,291	13,572		
2016/2017	8,672	13,204		
2017/2022	49,712	59,668		
2022/2027	62,229	47,151		
2027/2032	77,898	31,482		
2032/2037	98,863	10,517		
Total	<u>\$ 328,416</u>	<u>\$ 218,433</u>		

As of June 30, 2012, the Wellston Public Works Authority had one long-term note outstanding with the Stroud National Bank. The loans are represented as follows:

Note payable to the Stroud National Bank carries an interest rate of 8.10%. These monies were used to build the local Post Office, which is leased to the U.S. Postal Service. Collateral for this loan is the new building. The balance of this note as of June 30, 2012 was \$130,670 and matures in May 2017. The Wellston Public Works Authority paid \$18,444 in principal and \$13,018 in interest on this obligation for the year ending June 30, 2012. Payments on this note are \$2,654 per month.

	Principal	Interest		
2012/2013	22,130	9,718	Balance, Beginning of year	\$ 150,773
2013/2014	23,990	7,858	Principal Paid during year	20,113
2014/2015	26,007	5,841	Balance, End of Year	<u>\$ 130,660</u>
2015/2016	28,194	3,654		
2016/2017	30,339	1,272		
Total	<u>\$ 130,660</u>	<u>\$ 28,343</u>		

During the year ending June 30, 2012, \$24,867 of interest was attributable to water operations, \$8,289 was attributable to sewer operations and \$11,735 to the Post Office operations.

#### Town of Wellston

Long term debt recorded in the long term debt account group consists of a note payable to Stroud National Bank.

The note payable to the Stroud National Bank carries an interest rate of 4.9%. These monies were used to purchase an ambulance. Collateral for this loan is the ambulance. The loan carries an interest rate of 4.9% and has monthly payments of \$1,649 and matures September 2013. The outstanding balance at June 30, 2012 was \$25,541. Principal and interest paid during the year ending June 30, 2012 was \$17,336 and \$2,452, respectively. Interest on this loan was charged to the ambulance department for the year ending June 30, 2012.

	Principal	Interest		
2012/2013	19,039	749	Balance, Beginning of year	\$ 41,990
2013/2014	6,502	40	Principal Paid during year	16,449
Total	<u>\$ 25,541</u>	<u>\$ 789</u>	Balance, End of Year	<u>\$ 25,541</u>

The note payable to the Stroud National Bank carries an interest rate of 4.9%. These monies were used to purchase a police truck. Collateral for this loan is the truck. The loan carries an interest rate of 4.9% and has monthly payments of \$568 and matures October 24, 2012. The outstanding balance at June 30, 2012 was \$20,967. Principal and interest paid during the year ending June 30, 2012 was \$3,791 and \$754, respectively. Interest on this loan was charged to the ambulance department for the year ending June 30, 2012.

	Principal	Interest		
2012/2013	5,924	894	Balance, Beginning of year	\$ 24,718
2013/2014	6,221	597	Principal Paid during year	3,751
2014/2015	6,533	285	Balance, End of Year	<u>\$ 20,967</u>
2015/2016	2,289	23		
Total	<u>\$ 20,967</u>	<u>\$ 1,798</u>		

### **Note 5-Volunteer Firefighter Pension Plan**

The Town participates in the Oklahoma State Firefighters Pension and Retirement system which is a defined contribution plan applying only to the Town's volunteer firefighters. Vesting occurs after 10 years of service and payments begin at age 50, or after 20 years of service, whichever is later. Contributions are made by the town at the rate of \$60 per volunteer firefighter per year. The total contribution for 2011/2012 was \$960 and covered 16 volunteers.

### **Note 6-Defined Benefit Pension Plan**

Plan Description: The Town of Wellston contributes to the Oklahoma Municipal Retirement Fund, (the Fund), a cost-sharing multiple-employer defined benefit pension plan administered by the Trust Department of Liberty National Bank of Oklahoma Town. The Fund provides retirement, death and disability benefits to plan members who are regular full-time employees of participating municipalities, except for employees covered under other retirement plans. The authority to establish and amend benefit provisions to the Fund rest with the Fund's Board of Directors. The Oklahoma Municipal Retirement Fund issues a publicly available financial report that includes financial statements and required supplementary information for the Fund, including 10 year historical information. That report may be obtained from the Fund administrator, Nations Bank.

Funding Policy — Plan employers are required to contribute 7.09% of gross monthly salary and employees 3.75% of gross salary. These rates are actuarially determined. These rates may be amended by the Fund's Board of Directors. The Town's contributions to the Fund for the year ending June 30, 2012 were \$12,489. The employee's portion was \$6,606. Total covered payroll was \$176,154. These amounts were equal to the required contributions. Total payroll for the Town and Public Works Authority was \$213,849 for the year ending June 30, 2012.

**Casey J. Russell CPA, Inc.**

Casey J. Russell, C.P.A., M.B.A.  
Autumn L. Williams, C.P.A., Esq.  
Member AICPA & OSCP

**2812 NW 57<sup>th</sup> St., Ste. 102  
Oklahoma City, Oklahoma 73112**

Phone: (405) 607-8743  
Fax: (405) 607-8744  
Email: caseycpa@hotmail.com

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

To the Town Council  
Town of Wellston, Oklahoma

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Wellston, Oklahoma as of and for the year ended June 30, 2012, and have issued our report thereon dated July 28, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Town of Wellston, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Town of Wellston's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of Wellston's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Wellston'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 questioned costs that we consider to be significant deficiencies in internal control over financial reporting, 2012-1 & 2012-2. 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.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town'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 result of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

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

This report is intended for the information and use of the Town Council and management of the Town and is not intended to be and should not be used by anyone other than these parties.

*Cassey J. Russell CPA, snc.*

July 28, 2012

## Schedule of Findings and Responses

### 2012-1 Ticket Revenue (Lack of Segregation of Duties) (Repeat Finding)

**CONDITION:** The court clerk collects the payments from customers and also maintains the ticket ledgers. The court clerk also accepts cash payments but no reconciliation of cash payments have been made. The court clerk also maintains a daily payment ledger. The daily collections are reviewed by the Town Clerk/Treasurer but the Town Clerk/Treasurer is also reconciling the bank statements.

**CRITERIA:** There should be more separation of duties for record keeping and ticket collections.

**CAUSE OF CONDITION:** Limited Staff and inadequate internal controls.

**EFFECT OF CONDITION:** The Town is vulnerable to having ticket receipts lost or stolen.

**RECOMMENDATION:** The Town should implement a policy of not accepting cash payments at Town hall. The Town could also implement more internal controls by having more separation of duties. This could be done by having the personnel write receipts for all payments made regardless of type and then recording these payments on the daily ticket payment ledger. All payments, receipts, and a copy of the daily ticket payment ledger should be given directly to the Treasurer at the end of the day. The Court clerk should then take the original daily payment ledger to record the payments in the system. Once all payments have been recorded in the system, the court clerk should print off a payment listing from the system as well as a daily adjustment history to insure that no unnecessary adjustments have been paid, the Court clerk should also prepare the deposit slip at this time and retain the carbon copy. These reports along with the original daily ticket payment ledger and original of the deposit slip should be given to the Treasurer who should then compare the total payments and receipts written to the daily payment ledger, daily payment listing from system, and daily adjustment history. The Treasurer should then staple all documents together and give these back to the court clerk. When the Treasurer returns from the bank she should give the bank deposit receipt to the court clerk who should compare the receipt to the previous documents given to her by the Treasurer and also compare the carbon copy of the deposit slip to the bank deposit receipt. The Court clerk should then staple everything together and maintain for the audit files.

**MANAGEMENT RESPONSE:** Limited staff will continue to be a problem as the Town of Wellston does not have sufficient revenues to justify hiring different people to do different functions. For example, the Town Treasurer also has the duties of being the Court Clerk. To alleviate part of the problem, beginning immediately, the Town of Wellston Municipal Court will no longer accept cash payments. The Court Clerk will also start utilizing existing software to prepare receipts for payment of tickets plus generating a ticket ledger. The Town Clerk, who also serves as the Assistant Court Clerk, will begin checking ticket receipts against deposit slips for that account.

### 2012-2 Utility Billing Collections (Lack of Segregation of Duties) (Repeat Finding)

**CONDITION:** The utility billings clerk collects the payments from customers and also maintains the customer ledgers. The billings clerk also accepts cash payments but no reconciliation of cash payments have been made. The billings clerk also maintains a daily payment ledger however not all cash payments have been reflected on these ledgers. The daily collections and reports are reviewed by the Town Clerk/Treasurer but the Town Clerk/Treasurer is also reconciling the bank statements.

**CRITERIA:** There should be more separation of duties for record keeping and utility billings collections.

**CAUSE OF CONDITION:** Limited Staff and inadequate internal controls.

**EFFECT OF CONDITION:** The Town is vulnerable to having utility billing receipts lost or stolen.

**RECOMMENDATION:** The Town should implement a policy of not accepting cash payments at Town hall. The Town could also implement more internal controls by having more separation of duties. This could be done by having the personnel write receipts for all payments made regardless of type and then recording these payments on the daily payment ledger. All payments, receipts, and a copy of the daily payment ledger should be given directly to the Treasurer at the end of the day. The Utility Billings clerk should then take the original daily payment ledger to record the payments in the system. Once all payments have been recorded in the system, the billings clerk should print off a payment listing from the system as well as a daily adjustment history to insure that no unnecessary adjustments have been paid. These reports along with the original daily payment ledger should be given to the Treasurer who should then compare the total payments and receipts written to the daily payment ledger, daily payment listing from system, and daily adjustment history. Once the Treasurer has performed a comparison she should then prepare a deposit slip to be taken to the bank. The Treasurer should then staple all documents as well as a carbon copy of the deposit slip together and give these documents back to the Utilities Billing Clerk. When the Treasurer returns from the bank she should give the bank deposit receipt to the Billings Clerk who should then compare the receipt to the previous documents given to her by the Treasurer.

**MANAGEMENT RESPONSE:** Limited staff will continue to be a problem as the Town of Wellston does not have sufficient revenues to justify hiring different people to do different functions. For example, the Town Clerk also doubles as the Utility Billing Clerk. To alleviate part of the problem the Town of Wellston will implement a cash register. The Town will explore the possibility of acquiring the necessary device to utilize debit and credit card payments. The Town Treasurer will begin tallying receipts versus the payment ledger and compare totals. A ledger will be kept that will be initialed by both the Clerk and the Treasurer verifying that the payment amounts and deposits match. This ledger along with deposit slips will be maintained for the audit files.