Town of Wellston, Oklahoma

Financial Statements and Report of Independent Accountants

As of and For the Year Ending June 30, 2014

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Independent Auditor's Report

To the Board of Trustees
Town of Wellston, Oklahoma

Report on the Financial Statements

We have audited the accompanying modified cash-basis financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Town of Wellston, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash-basis of accounting described in Note 1. This includes determining that the modified cash-basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash-basis financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Wellston, as of June 30, 2014, and the respective changes in modified cash-basis financial position, and, where applicable, cash flows thereof for the year then ended in conformity with the basis of accounting described in Note 1.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis and budgetary comparison information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated August 8, 2014, on our consideration of the Town of Wellston's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Town of Wellston's internal control over financial reporting and compliance.

Basis of Accounting

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

Casey J. Russell CPA, PLLC.

Oklahoma City, Oklahoma
August 8, 2014

Town of Wellston, Oklahoma
Statement of Net Position - Modified Cash Basis
June 30, 2014

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash in bank - unrestricted	251,450.01	37,382.76	288,832.77
Cash in bank - restricted	48,766.57	77,515.85	126,282.42
Taxes, grants, and utility billing receivables, net	49,007.97	18,300.60	67,308.57
Total current assets	349,224.55	133,199.21	482,423.76
Noncurrent assets:			
Net capital assets	400,851.03	1,521,462.05	1,922,313.08
Total noncurrent assets	400,851.03	1,521,462.05	1,922,313.08
Total assets	$ 750,075.58	$ 1,654,661.26	$ 2,404,736.84
LIABILITIES			
Current liabilities:			
Meter deposits	-	20,200.00	20,200.00
Current portion long term debt	-	62,213.01	62,213.01
Total current liabilities	-	82,413.01	82,413.01
Noncurrent liabilities:			
Bonds and notes	21,626.53	674,595.21	696,221.74
Total noncurrent liabilities	21,626.53	674,595.21	696,221.74
Total liabilities	21,626.53	757,008.22	778,634.75
NET POSITION			
Invested in capital assets, net of related debt	379,224.50	784,653.83	1,163,878.33
Restricted	48,766.57	77,515.85	126,282.42
Unrestricted	300,457.98	35,483.36	335,941.34
Total net position	728,449.05	897,653.04	1,626,102.09
Total liabilities and net position	$ 750,075.58	$ 1,654,661.26	$ 2,404,736.84

The accompanying notes are an integral part of these financial statements

Town of Wellston
Statement of Activities - Modified Cash Basis
For the Year Ending June 30, 2014

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position Primary Government: Governmental Activities	Net (Expense) Revenue and Changes in Net Position Primary Government: Business-Type Activities	Total
Primary government						
Governmental activities:						
Streets maintenance	14,531.31	-	19,473.98	4,942.67	-	4,942.67
Fire department	36,100.77	940.88	-	(35,159.89)	-	(35,159.89)
Ambulance	111.98	-	-	(111.98)	-	(111.98)
Police department	204,219.67	40,683.90	-	(163,535.77)	-	(163,535.77)
General government	179,774.17	-	-	(179,774.17)	-	(179,774.17)
Court	17,852.57	-	-	(17,852.57)	-	(17,852.57)
Cemetery	12,838.89	3,200.00	-	(9,638.89)	-	(9,638.89)
Miscellaneous	4,855.81	21,517.38	-	16,661.57	-	16,661.57
Total governmental activities	470,285.17	66,342.16	19,473.98	(384,469.03)	-	(384,469.03)
Business-type activities						
Water department	247,331.57	109,387.77	-	-	(137,943.80)	(137,943.80)
Sewer department	40,120.43	41,172.87	-	-	1,052.44	1,052.44
Garbage department	54,398.58	87,952.84	-	-	33,554.26	33,554.26
Miscellaneous	17,069.82	47,852.76	-	-	30,782.94	30,782.94
Total business-type activities	358,920.40	286,366.24	-	-	(72,554.16)	(72,554.16)
Total primary government	$ 829,205.57	$ 352,708.40	$ 19,473.98	$ (384,469.03)	$ (72,554.16)	$ (457,023.19)
General revenues:						
Taxes:						
Sales taxes				316,819.22	-	316,819.22
Other taxes				89,380.92	-	89,380.92
Interest income				1,174.49	694.56	1,869.05
Transfers in/out				(45,346.06)	45,346.06	-
Total general revenues				362,028.57	46,040.62	408,069.19
Change in net position				(22,440.46)	(26,513.54)	(48,954.00)
Net position - beginning				750,889.51	924,166.58	1,675,056.09
Net position - ending				$ 728,449.05	$ 897,653.04	$ 1,626,102.09

The accompanying notes are an integral part of these financial statements

Town of Wellston, Oklahoma
Balance Sheet - Modified Cash Basis
Governmental Funds
June 30, 2014

	General Fund	Cemetery Fund	Total Governmental Funds
ASSETS			
Cash in bank	159,906.86	91,543.15	251,450.01
Cash in bank - restricted	48,766.57	-	48,766.57
Taxes and Grants receivables, net	49,007.97	-	49,007.97
Total assets	$ 257,681.40	$ 91,543.15	$ 349,224.55
LIABILITIES			
Accounts payable	-	-	-
FUND BALANCES			
Unassigned	208,914.83	-	208,914.83
Assigned	-	91,543.15	91,543.15
Restricted	48,766.57	-	48,766.57
Total fund balances	257,681.40	91,543.15	349,224.55
Total liabilities and fund balances	$ 257,681.40	$ 91,543.15	$ 349,224.55

Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities June 30, 2014

Total Governmental Fund Balances	$ 349,224.55
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	400,851.03
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(21,626.53)
Net Position of Governmental Activities	$ 728,449.05

The accompanying notes are an integral part of these financial statements

Town of Wellston, Oklahoma
Statement of Revenues, Expenditures and Changes in Fund Balances - Modified Cash Basis
Governmental Funds
For the Year Ended June 30, 2014

	General Fund	Cemetery Fund	Total Governmental Funds
Revenues:			
Taxes	406,200.14	-	406,200.14
Charges for services	940.88	3,200.00	4,140.88
Fines	40,683.90	-	40,683.90
Grants	19,473.98	-	19,473.98
Interest	238.86	935.63	1,174.49
Other	21,517.38	-	21,517.38
Total revenues	489,055.14	4,135.63	493,190.77
Expenditures:			
Streets maintenance	14,531.31	-	14,531.31
Fire department	37,267.43	-	37,267.43
Ambulance	111.98	-	111.98
Police department	204,001.63	-	204,001.63
Court	17,852.57	-	17,852.57
Cemetery	-	12,838.89	12,838.89
General government	177,202.02	-	177,202.02
Debt Service	10,809.73	-	10,809.73
Miscellaneous	4,855.81	-	4,855.81
Total expenditures	466,632.48	12,838.89	479,471.37
Excess revenues over (under) expenditures	22,422.66	(8,703.26)	13,719.40
Transfers in/out	(45,346.06)	-	(45,346.06)
Excess revenues over (under) expenditures after	(22,923.40)	(8,703.26)	(31,626.66)
Fund balances at beginning of year	280,604.80	100,246.41	380,851.21
Fund balances at end of year	$ 257,681.40	$ 91,543.15	$ 349,224.55

Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmnetal Funds to the Statement of Activities for the Year Ended June 30, 2014

Net change in fund balances-total government funds	$ (31,626.66)
Funds borrowed that were recorded as capital financing in the fund financial statements but recorded as a long term libaility in the government	
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	10,809.73
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	22,589.00
Depreciation expense recorded in the government wide financial statements but not recorded in the individual fund financial statements	(24,212.53)
Change in net position of governmental activities	$ (22,440.46)

The accompanying notes are an integral part of these financial statements

Town of Wellston, Oklahoma
Statement of Net Position - Modified Cash Basis
Proprietary Funds
June 30, 2014

ASSETS	
Current assets:	
Cash in bank - unrestricted	37,382.76
Cash in bank - restricted	77,515.85
Utility billing receivable, net	18,300.60
Total current assets	133,199.21
Noncurrent assets:	
Net capital assets	1,521,462.05
Total noncurrent assets	1,521,462.05
Total assets	$ 1,654,661.26
LIABILITIES	
Current liabilities:	
Meter deposits	20,200.00
Current portion long term debt	62,213.01
Total current liabilities	82,413.01
Noncurrent liabilities:	
Bonds and notes	674,595.21
Total noncurrent liabilities	674,595.21
Total liabilities	757,008.22
NET POSITION	
Invested in capital assets, net of related debt	784,653.83
Unrestricted	112,999.21
Total net position	897,653.04
Total liabilities and net position	$ 1,654,661.26

The accompanying notes are an integral part of these financial statements

Town of Wellston, Oklahoma
Statement of Revenues, Expenses, and Changes in Net Position - Modified Cash Basis
Proprietary Fund Type
For the Year Ended June 30, 2014

Operating Revenues:	
Water sales	$ 109,387.77
Sewer fees	41,172.87
Garbage fees	87,952.84
Miscellaneous	47,852.76
Total operating revenues	286,366.24
Operating Expenses:	
Water department	247,331.57
Sewer department	40,120.43
Garbage department	54,398.58
Miscellaneous	17,069.82
Total operating expenses	358,920.40
Operating income (loss)	(72,554.16)
Non-operating revenues (expenses):	
Interest income	694.56
Net non-operating revenues (expenses)	694.56
Change in net position before transfers	(71,859.60)
Transfers in/out	45,346.06
Change in net position after transfers	(26,513.54)
Net position at beginning of year	924,166.58
Net position at end of year	$ 897,653.04

The accompanying notes are an integral part of these financial statements

Town of Wellston
Statement of Cash Flows - Proprietary Fund - Modified Cash Basis
For the Year Ending June 30, 2014

Cash flows from operating activities	
Cash received from customers	$ 237,910.83
Cash received from rental activities	47,852.76
Cash received in interest on deposits	694.56
Cash paid to employees	(59,224.70)
Cash paid to suppliers	(109,728.31)
Cash paid in interest expense	(36,066.94)
Net cash provided by operating activities	81,438.20
Cash flows from capital and related financing activities	
Purchase of fixed assets	(19,400.96)
Increase (decrease) in meter deposit liability	700.00
Principal paid on capital debt	(62,418.45)
Net cash provided (used) for capital and related financing activities	(81,119.41)
Net increase (decrease) in cash and cash equivalents	318.79
Cash and cash equivalents at beginning of year	114,579.82
Cash and cash equivalents at end of year	$ 114,898.61
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	(26,513.54)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation expense	108,554.39
(Increase) decrease in accounts receivable	(602.65)
Net cash provided (used) by operating activities	$ 81,438.20

The accompanying notes are an integral part of these financial statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1.C, these financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) established by the Governmental Accounting Standards Board (GASB). These modified cash-basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the modified cash basis of accounting.

1.A. 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, 2014, the Town has one component, the Wellston Public Works Authority.

1.B. BASIS OF PRESENTATION

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole within the limitations of the modified cash basis of accounting. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities.

Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed, in whole or part, by fees charged to external parties for goods or services.

FUND FINANCIAL STATEMENTS

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

a. Total assets, deferred outflows, liabilities, deferred inflows, revenues, or expenditures or expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type.

b. Total assets, deferred outflows, liabilities, deferred inflows, revenues, or expenditures or expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described subsequently:

Governmental Funds

General Fund

The General Fund is the primary operating fund of the Town and always classified as a major fund. It is used to account for all financial resources not accounted for and reported in another fund.

Special Revenue Funds

Special Revenue Funds are used to account for and report the proceeds of the specific revenue sources that are either restricted or committed to expenditures for specified purposes other than debt service or capital projects. The reporting entity includes the following special revenue funds, all of which are reported as nonmajor funds: Cemetery Fund.

Proprietary Funds

Enterprise Fund

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

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe what transactions or events are recorded within the various financial statements. Basis of accounting refers to when and how transactions or events are recorded, regardless of the measurement focus applied.

MEASUREMENT FOCUS

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, as subsequently defined in item (b).

In the fund financial statements, the current financial resources measurement focus or the economic resources measurement focus, as applied to the modified cash basis of accounting, is used as appropriate:

a. All governmental funds utilize a current financial resources measurement focus within the limitations of the modified cash basis of accounting. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

b. The proprietary fund utilizes an economic resources measurement focus within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), net financial position, and cash flows. All assets, deferred outflows, liabilities, and deferred

inflows (whether current or noncurrent or financial or nonfinancial) associated with their activities are generally reported within the limitations of the modified cash basis of accounting.

BASIS OF ACCOUNTING

The financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than GAAP as established by GASB. This basis of accounting involves modifications to the cash basis of accounting to report in the statements of net position or balance sheets cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such reported balances include investments, interfund receivables and payables, capital assets and related depreciation, and short-term and long-term liabilities arising from cash transactions or events.

This modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected and other accrued revenue and receivables) and certain liabilities and their related expenses or expenditures (such as accounts payable and expenses for goods or services received but not yet paid and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

If the Town utilized the basis of accounting recognized as generally accepted in the United States, the fund financial statements for governmental funds would use the modified accrual basis of accounting, and the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

1.D. FINANCIAL POSITION

CASH AND CASH EQUIVALENTS

For the purpose of financial reporting, cash and cash equivalents includes all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less. Trust account investments in open-ended mutual fund shares are also considered cash equivalents.

INVESTMENTS

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

CAPITAL ASSETS

The Town's modified cash basis of accounting reports capital assets resulting from cash transactions or events and reports depreciation, when appropriate. The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund and similar discretely presented component unit operations and whether they are reported in the government-wide or fund financial statements.

Government-Wide Statements

In the government-wide financial statements, capital assets arising from cash transactions or events are

accounted for as assets in the Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable.

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

Buildings	40-50 years
Improvements other than buildings	10-25 years
Machinery, furniture, and equipment	3-20 years
Utility property and improvements	10-50 years
Infrastructure	25-50 years

Fund Financial Statements

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

LONG-TERM DEBT

All long-term bonds, notes, and other debt arising from cash transactions or events to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements.

Long-term debt arising from cash transactions or events of governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources, and payment of principal and interest is reported as expenditures. The accounting for proprietary funds is the same in the fund financial statements as the treatment in the government-wide statements.

NET POSITION/FUND BALANCE CLASSIFICATIONS

Government-Wide Statements

Net Position is classified and displayed in three components:

1. *Net investment in capital assets.* Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.

2. *Restricted.* Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction constraints placed on the use either by external groups, such as creditors, grantors, contributors, or laws and regulations of other governments, or law through constitutional provisions or enabling legislation.

3. *Unrestricted.* Net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

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

Fund Financial Statements

Governmental Funds

The difference among assets, deferred outflows, liabilities, and deferred inflows of governmental funds is reported as fund balance and classified as nonspendable, restricted, committed, assigned, and unassigned based on the respective level of constraint. These constraints are defined as follows:

Nonspendable. Amounts that cannot be spent because they either are not in spendable form or are legally or contractually required to be maintained intact.

Restricted. Amounts constrained regarding use from restrictions externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or by restrictions imposed by law through constitutional provisions or enabling legislation.

Committed. Amounts constrained regarding use for specific purposes pursuant to requirements imposed by formal action of the Town's highest level of decision-making authority. (In the case of the Town of Example, commitments are evidenced by adoption of an ordinance by the Town Council.)

Assigned. Amounts constrained by the Town's intent to be used for specific purposes but that are neither restricted nor committed. (In the case of the Town of Example, assignments are evidenced either by resolution of the Town Council or by the Town Manager in written form as approved by vote of the Town Council pursuant to Town policy.)

Unassigned. The residual classification of the General Fund for spendable amounts that have not been restricted, committed, or assigned to specific purposes.

It is the Town's policy to first use restricted fund balances prior to the use of unrestricted fund balances when an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available. It is also Town policy to use committed fund balances before assigned fund balances and assigned fund balances before unassigned amounts when an expenditure is incurred for purposes for which amounts in those classifications are available to be used.

The Town has no formal minimum fund balance policies or any formal stabilization arrangements in place.

Proprietary Funds

The difference among assets, deferred outflows, liabilities, and deferred inflows of proprietary funds is reported as net position and classified in the same manner as the government-wide financial statements, as previously described.

1.E. REVENUES, EXPENDITURES, AND EXPENSES

PROGRAM REVENUES

In the Statement of Activities, modified cash-basis revenues that are derived directly from each activity or from parties outside the Town's taxpayers are reported as program revenues. The Town has the following program revenues in each activity: General Government, Streets, and Public Works.

All other governmental revenues are reported as general revenues. All taxes are classified as general revenue even if restricted for a specific purpose.

OPERATING REVENUE AND EXPENSES

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

GASB 34 IMPLEMENTATION

The Town has implemented the new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, as of June 30, 2004.

1.G. USE OF ESTIMATES

The preparation of financial statements in conformity with the modified cash basis of accounting used by the Town requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

By its nature as a local government unit, the Town and its component units are subject to various federal, state, and local laws and contractual regulations. The following instances of noncompliance are considered material to the financial statements.

NOTE 3. 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 4. CAPITAL ASSETS AND DEPRECIATION

Capital Asset activity for the year ended June 30, 2014 was as follows:

Governmental Funds

	Beginning Balance	Increases	Decreases	Ending Balance
Land	$ 64,750	-	-	$ 64,750
Equipment	510,109	22,589	-	532,698
Buildings & Improvements	179,579	-	-	179,579
Total	754,438			777,027
Accumulated Depreciation	(351,962)	(24,213)	-	(376,175)
Net Assets	$ 402,476			$ 400,852

As of June 30, 2014, 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 Balance	Increases	Decreases	Ending 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	1,870,796	19,401	-	1,890,197
Total	3,757,118			3,776,519
Accumulated Depreciation	(2,146,501)	(108,554)	-	(2,255,055)
Net Assets	$ 1,610,617			$ 1,521,464

As of June 30, 2014, 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 – $11,771; Fire Department - $5,043; Police Department - $7,398; and Public Works Authority - $108,554.

NOTE 5. NOTES PAYABLE

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 4.0%. These monies were used to purchase a police truck. Collateral for this loan is the truck. This loan has monthly payments of $435.52 and

matures January 2017. The outstanding balance at June 30, 2014 was $12,826. Principal and interest paid during the year ending June 30, 2014 was $4,602 and $624, respectively. Interest on this loan was charged to the ambulance department for the year ending June 30, 2014.

	Principal	Interest
2014/2015	4,801	425
2015/2016	4,997	229
2016/2017	3,028	40
Total	$ 12,826	$ 695

Balance, Beginning of year	$ 17,429
Principal Paid during year	4,603
Balance, End of Year	$ 12,826

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, 2015. The outstanding balance at June 30, 2014 was $8,800. Principal and interest paid during the year ending June 30, 2014 was $6,207 and $609, respectively. Interest on this loan was charged to the ambulance department for the year ending June 30, 2014.

	Principal	Interest
2014/2015	6,533	285
2015/2016	2,267	23
Total	$ 8,800	$ 308

Balance, Beginning of year	$ 15,008
Principal Paid during year	6,208
Balance, End of Year	$ 8,800

Wellston Public Works Authority

As of June 30, 2014, 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 $133,203 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 $19,405 and $7,115, 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
2014/2015	20,342	6,180
2015/2016	21,382	5,140
2016/2017	22,476	4,046
2017/2018	23,624	2,896
2018/2019	24,833	1,687
2019/2020	20,546	435
Total	$ 133,203	$ 20,383

Balance, Beginning of year	$ 152,608
Principal Paid during year	19,405
Balance, End of Year	$ 133,203

The second note with Rural Development has an outstanding balance of $208,352 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 $7,557 and $10,587, 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
2014/2015	7,927	10,217
2015/2016	8,332	9,811
2016/2017	8,758	9,385
2017/2018	9,207	8,937
2018/2019	9,678	8,466
2019/2024	46,341	44,379
2024/2029	72,306	18,414
2029/2031	45,804	8,628
Total	$ 208,352	$ 118,238

Balance, Beginning of year	$ 215,909
Principal Paid during year	7,557
Balance, End of Year	$ 208,352

The third note with Rural Development has an outstanding balance of $314,364 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 $7,617 and $14,259, 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
2014/2015	7,939	13,937
2015/2016	8,304	13,572
2016/2017	8,686	13,190
2017/2018	9,085	12,791
2018/2019	9,502	12,374
2019/2024	54,473	54,907
2024/2029	68,189	41,191
2029/2034	85,359	24,022
2034/2034	62,828	2,800
Total	$ 314,364	$ 188,783

Balance, Beginning of year	$ 321,981
Principal Paid during year	7,617
Balance, End of Year	$ 314,364

As of June 30, 2014, 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, 2014 was $80,889 and matures in May 2017. The Wellston Public Works Authority paid $27,839 in principal and $4,009 in interest on this obligation for the year ending June 30, 2014. Payments on this note are $2,654 per month.

	Principal	Interest
2014/2015	26,007	5,841
2015/2016	28,194	3,654
2016/2017	26,688	1,272
Total	$ 80,889	$ 10,767

Balance, Beginning of year	$ 108,728
Principal Paid during year	27,839
Balance, End of Year	$ 80,889

During the year ending June 30, 2014, $24,043 of interest was attributable to water operations, $8,014 was attributable to sewer operations and $4,009 to the Post Office operations.

NOTE 6. 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 2013/2014 was $900 and covered 15 volunteers.

NOTE 7. 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 8.24% 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, 2014 were $15,824. The employee's portion was $7,201. Total covered payroll was $192,037. These amounts were equal to the required contributions. Total payroll for the Town and Public Works Authority was $226,854 for the year ending June 30, 2014.

NOTE 8. SUBSEQUENT EVENTS

Subsequent events have been evaluated through August 8, 2014, which is the date the financial statements were issued.

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

To the Board of Trustees
Town of Wellston

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Town of Wellston, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Town of Wellston's basic financial statements, and have issued our report thereon dated August 8, 2014.

The report was a special report on the Town's use of a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or 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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies. 2014-1 & 2014-2.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Wellston's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Casey J. Russell CPA, Inc.

Oklahoma City, Oklahoma
August 8, 2014

Schedule of Findings and Responses

2014-1 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.

2014-2 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 slop 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.