

***TOWN OF WELCH***  
Craig County, Oklahoma  
Independent Auditor's Report and  
Financial Statements  
For the Year Ended June 30, 2011

**TOWN OF WELCH**  
Craig County, Oklahoma

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***TOWN OF WELCH***  
**Craig County, Oklahoma**

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# WINGARD, RAGSDALE & LANGLEY

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## INDEPENDENT AUDITOR'S REPORT

To The Town Council  
Town of Welch, Craig County, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of Town of Welch, State of Oklahoma, as of and for the year ended June 30, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Town of Welch, State of Oklahoma's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the Town of Welch, State of Oklahoma, as of June 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2012, on our consideration of the Town of Welch, State of Oklahoma'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* and should be considered in assessing the results of our audit.

Management has omitted 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.

A handwritten signature in black ink that reads "Wingard, Ragsdale & Langley, CPAs, PLLC". The signature is written in a cursive, flowing style.

**WINGARD, RAGSDALE & LANGLEY**  
*CERTIFIED PUBLIC ACCOUNTANTS, PLLC*

**JUNE 28, 2012**

***TOWN OF WELCH***  
Basic Financial Statements  
For the Year Ended June 30, 2011

The basic financial statements include integrated sets of financial statements as required by the Governmental Accounting Standards Board. The sets of financial statements include:

1. Government-wide Financial Statements
2. Fund Financial Statements
  - a) Governmental funds
  - b) Proprietary funds

In addition, the notes to the financial statement are included to provide information that is essential to a user's understanding of the basic financial statements.

**TOWN OF WELCH**  
Statement of Net Assets - Government Wide  
June 30, 2011

<u>ASSETS</u>	<u>Primary Government</u>		<u>Total</u>
	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	
Current assets:			
Cash and equivalents (Note 3.A.)	\$ 65,440	26,324	91,764
Investments (Note 3.A.)	48,328	2,500	50,828
Receivables	11,770	32,571	44,341
Other receivables		130	130
Restricted assets: (Note 3.C.)			
Cash and equivalents		80,571	80,571
Investments		26,327	26,327
Total current assets	<u>125,538</u>	<u>168,423</u>	<u>293,961</u>
Non-current assets:			
Capital assets: (Note 3.D.)			
Non-depreciable	44,993	211,165	256,158
Depreciable, net of depreciation	280,277	931,486	1,211,763
Total non-current assets	<u>325,270</u>	<u>1,142,651</u>	<u>1,467,921</u>
Total assets	<u>\$ 450,808</u>	<u>1,311,074</u>	<u>1,761,882</u>
 <u>LIABILITIES</u> 			
Current liabilities:			
Accounts payable and accrued expenses	\$ 17,714	25,079	42,793
Meter deposits (Note 3.G.)		14,741	14,741
Total current liabilities	<u>17,714</u>	<u>39,820</u>	<u>57,534</u>
Long-term liabilities: (Note 3.F.)			
Due within one year	4,511	20,608	25,119
Due in more than one year	26,017	501,633	527,650
Total non-current liabilities	<u>30,528</u>	<u>522,241</u>	<u>552,769</u>
Total liabilities	<u>48,242</u>	<u>562,061</u>	<u>610,303</u>
 <u>NET ASSETS</u> 			
Invested in capital assets, net of related debt	294,742	620,410	915,152
Restricted:			
Debt Service	-	92,157	92,157
Reserved for meter deposits	-	14,741	14,741
Unrestricted	107,824	21,705	129,529
Total net assets	<u>402,566</u>	<u>749,013</u>	<u>1,151,579</u>
Total liabilities and net assets	<u>\$ 450,808</u>	<u>1,311,074</u>	<u>1,761,882</u>

See accompanying notes to the financial statements.

**TOWN OF WELCH**  
Statement of Activities - Government Wide  
June 30, 2011

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Assets Primary Government		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General Government	\$ 105,242			-	(105,242)	-	(105,242)
Public Safety	96,607	73,359	11,617	-	(11,631)	-	(11,631)
Public Works	613			-	(613)	-	(613)
Total governmental activities	<u>202,462</u>	<u>73,359</u>	<u>11,617</u>	<u>-</u>	<u>(117,486)</u>	<u>-</u>	<u>(117,486)</u>
Business-type activities:							
Water System	362,487	264,107	-	9,245	-	(89,135)	(89,135)
Total business-type activities	<u>362,487</u>	<u>264,107</u>	<u>-</u>	<u>9,245</u>	<u>-</u>	<u>(89,135)</u>	<u>(89,135)</u>
Total primary government	<u>\$ 564,949</u>	<u>337,466</u>	<u>11,617</u>	<u>9,245</u>	<u>(117,486)</u>	<u>(89,135)</u>	<u>(206,621)</u>
General revenues:							
Taxes:							
Franchise taxes					\$ 27,840	-	27,840
Public service taxes					69,017	-	69,017
Unrestricted investment earnings					920	844	1,764
Miscellaneous					8,061	8,844	16,905
Transfers					(21,025)	21,025	-
Total general revenues and transfers					<u>84,813</u>	<u>30,713</u>	<u>115,526</u>
Change in net assets					(32,673)	(58,422)	(91,095)
Net assets - beginning					<u>435,239</u>	<u>807,435</u>	<u>1,242,674</u>
Net assets - ending					<u>\$ 402,566</u>	<u>749,013</u>	<u>1,151,579</u>

See accompanying notes to the financial statements.



**TOWN OF WELCH**

Reconciliation of the Governmental Funds Balance Sheet to  
the Government Wide Statement of Net Assets  
June 30, 2011

Total fund balance, governmental funds \$ 107,824

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

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund financial statement, but are reported in the governmental activities of the Statement of Net Assets 325,270

Some liabilities, (such as Notes Payable, Capital Leases Contract Payable, Long-term Compensated Absences, Claims Payable and Bonds Payable), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets. (30,528)

Net assets of governmental activities in the Statement of Net Assets \$ 402,566

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See accompanying notes to the financial statements.

## **TOWN OF WELCH**

### Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Government Wide Statement of Activities June 30, 2011

Net change in fund balances - total governmental funds: \$ (2,740)

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

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount by which capital outlays exceeded depreciation in the current period. (34,605)

The principal outlays of long-term debt provides current financial resources to governmental funds, while payment of the principal debt consumes the current financial resources of governmental funds. The transaction, however, has no effect on net assets. The governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in treatment of long-term debt and related items. 4,672

Change in net assets of governmental activities \$ (32,673)

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See accompanying notes to the financial statements.

**TOWN OF WELCH**  
 Balance Sheet - Governmental Funds  
 June 30, 2011

	<u>Major</u>		<u>Nonmajor</u>	
	<u>General</u>	<u>Fire</u>	<u>Cemetery</u>	<u>Total</u>
	<u>Fund</u>	<u>Department</u>	<u>Association</u>	<u>Governmental</u>
	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Funds</u>
<b><u>ASSETS</u></b>				
	\$			
Cash and cash equivalents	30,419	35,021	-	65,440
Investments	7,674	3,077	37,577	48,328
Receivable from other governments	10,856	-	-	10,856
Other receivables	914	-	-	914
Total assets	<u>\$ 49,863</u>	<u>38,098</u>	<u>37,577</u>	<u>125,538</u>
 <b><u>LIABILITIES AND FUND BALANCES</u></b>				
Liabilities:				
Accounts payable	\$ 17,714	-	-	17,714
Total liabilities	<u>17,714</u>	<u>-</u>	<u>-</u>	<u>17,714</u>
Fund balances:				
Assigned	17,714	38,098	37,577	93,389
Unassigned	14,435	-	-	14,435
Total fund balances	<u>32,149</u>	<u>38,098</u>	<u>37,577</u>	<u>107,824</u>
Total liabilities and fund balances	<u>\$ 49,863</u>	<u>38,098</u>	<u>37,577</u>	<u>125,538</u>

See accompanying notes to the financial statements.

# TOWN OF WELCH

## Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds June 30, 2011

	<u>Major</u>		<u>Nonmajor</u>	
	<u>General Fund</u>	<u>Fire Department Fund</u>	<u>Cemetery Association Fund</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Sales and miscellaneous taxes	\$ 69,017	-	-	69,017
Franchise taxes	27,840	-	-	27,840
Intergovernmental	-	-	-	-
Fundraising gifts/donations	-	11,617	-	11,617
Charges for services	-	18,212	-	18,212
Traffic and city court	55,147	-	-	55,147
Interest income	774	35	111	920
Miscellaneous	1,137	6,903	21	8,061
Total revenues	<u>153,915</u>	<u>36,767</u>	<u>132</u>	<u>190,814</u>
<b>EXPENDITURES</b>				
General Government	89,154	-	6,614	95,768
Public Safety	60,108	10,533	-	70,641
Public Works	613	-	-	613
Debt Service:				0
Principal		4,672		4,672
Interest		835		835
Total expenditures	<u>149,875</u>	<u>16,040</u>	<u>6,614</u>	<u>172,529</u>
Excess (deficiency) of revenues over expenditures	<u>4,040</u>	<u>20,727</u>	<u>(6,482)</u>	<u>18,285</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	11,325	-	6,545	17,870
Transfers out	<u>(27,570)</u>	<u>(11,325)</u>	<u>-</u>	<u>(38,895)</u>
Total other financing sources (uses)	<u>(16,245)</u>	<u>(11,325)</u>	<u>6,545</u>	<u>(21,025)</u>
Net change in fund balances	<u>(12,205)</u>	<u>9,402</u>	<u>63</u>	<u>(2,740)</u>

See accompanying notes to the financial statements.

**TOWN OF WELCH**  
Statement of Net Assets - Proprietary Funds  
June 30, 2011

<u>ASSETS</u>	<u>Welch Public Works Authority</u>
Current Assets:	
Cash and cash equivalents	\$ 26,324
Investments	2,500
Accounts receivable, net	32,571
Other receivables	130
Restricted assets: (Note 3.C.)	
Cash and equivalents	80,571
Investments	26,327
Total current assets	168,423
Non-current assets:	
Capital Assets:	
Land and improvements	211,165
Infrastructure	2,664,341
Buildings	6,946
Vehicles	5,800
Equipment and furniture	37,155
Less accumulated depreciation	(1,782,756)
Total non-current assets	1,142,651
Total assets	\$ 1,311,074
<u>LIABILITIES</u>	
Current Liabilities:	
Payroll liabilities	\$ 24,149
Meter deposits	14,741
Accrued interest	930
Bonds, notes and loans payable	20,608
Total current liabilities	60,428
Non-current liabilities:	
Bonds, notes and loans payable	501,633
Total noncurrent liabilities	501,633
Total liabilities	562,061
<u>NET ASSETS</u>	
Net Assets:	
Invested in capital assets, net of related debt	620,410
Restricted for debt service	92,157
Restricted for meter deposits	14,741
Unrestricted	21,705
Total net assets	749,013
Total liabilities and net assets	\$ 1,311,074

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See accompanying notes to the financial statements.

# **TOWN OF WELCH**

## Statement of Revenues, Expenses and Changes in Fund Net Assets Proprietary Funds June 30, 2011

	<b>Welch Public Works Authority</b>
<b>REVENUES:</b>	
Charges for services	\$ 264,107
Total operating revenues	<u>264,107</u>
<b>OPERATING EXPENSES:</b>	
Personnel services	57,732
Contractual services	60,737
Repairs and maintenance	40,014
Utilities	18,766
Depreciation	109,808
Other supplies and expenses	49,325
Total operating expenses	<u>336,382</u>
Operating income (loss)	<u>(72,275)</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>	
Interest and investment income	844
Miscellaneous revenue	8,844
Capital grants and contributions	9,245
Interest expense	(26,105)
Total non-operating revenues (expenses)	<u>(7,172)</u>
Income (loss) before transfers	(79,447)
Transfers in	21,025
Transfers out	<u>-</u>
Change in net assets	(58,422)
Total net assets, beginning	<u>807,435</u>
Total net assets, ending	<u>\$ 749,013</u>

See accompanying notes to the financial statements.

**TOWN OF WELCH**  
Statement of Cash Flows - Proprietary Funds  
June 30, 2011

**Cash Flows from Operating Activities:**

Receipts from customers	\$ 247,282
Payments to suppliers	(149,302)
Payments to employees	(57,732)
Net cash provided by operating activities	40,248

**Cash Flows from Noncapital Financing Activities:**

Grant revenue for capital assets	9,245
Miscellaneous income	11,844
Net cash provided by noncapital financing activities	21,089

**Cash Flows from Capital and Related Financing Activities:**

Purchases of capital assets	(9,314)
Principal paid on capital debt	(17,056)
Interest paid on capital debt	(25,959)
Net cash used by capital and related financing activities	(52,329)

**Cash Flows from Investing Activities:**

Investment income	844
Sale of investments	20,237
Net cash provided by investing activities	21,081

Net decrease in cash and cash equivalents	30,089
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Cash and cash equivalents, beginning of year	76,806
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Cash and cash equivalents, end of year	\$ 106,895
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Cash and cash equivalents	\$ 26,324
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Restricted cash and cash equivalents	80,571
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Cash and cash equivalents, end of year	\$ 106,895
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See accompanying notes to the financial statements.

**TOWN OF WELCH**  
Statement of Cash Flows - Proprietary Funds  
June 30, 2011  
(continued)

Reconciliation of Operating Income to Net  
Cash Provided by Operating Activities:

Operating (loss)	\$ (58,422)
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Adjustment to reconcile operating income to net  
cash provided by operating activities:

Depreciation expense	109,808
Increase in accounts receivable, net	(16,825)
Decrease in accounts payable	(6,241)
Increase in payroll liabilities	12,954
Decrease in meter deposits	(1,026)
Net cash provided by operating activities	\$ <u>40,248</u>

Supplemental disclosures of cash flow information:

Interest paid (cash basis)	\$ <u>25,394</u>
Interest incurred (accrual basis)	\$ <u>26,105</u>

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See accompanying notes to the financial statements.



**TOWN OF WELCH**  
Notes to the Financial Statements  
June 30, 2011

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

**1.A. Introduction**

The financial statements of *Town of Welch* are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Town's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. In accordance with GASB Statement Nos. 20 and 34, for its governmental and business-type activities, the Town has elected to apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The following represent the more significant accounting and reporting policies and practices of the Town.

**1.B. Financial Reporting Entity**

In evaluating how to define the Town, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board (GASB). The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the Town and/or its citizens, or whether the activity is conducted within the geographic boundaries of the Town and is generally available to its patrons. A third criterion used to evaluate potential component units for inclusion and exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Town is able to exercise oversight responsibilities. The *Town of Welch* and component units consist of all fund accounts of the oversight unit, the *Town of Welch*, referred to as "the Town", and the *Welch Public Works Authority*, referred to as "the Authority", a blended component unit.

**TOWN OF WELCH**  
Notes to the Financial Statements  
June 30, 2011  
(continued)

**Note 1 - Summary of Significant Accounting Policies** (continued)

**1.C. Basis of Presentation**

*Government-Wide Financial Statements:*

The statement of net assets and statement of activities display information about the reporting government as a whole. They include all financial activities of the reporting entity except for fiduciary activities. Individual funds are not displayed in these statements. Instead, the statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business type activities are financed in whole or in part by fees charged to external parties for goods or services. For the purposes of the statement of activities, all inter-fund transfers between individual governmental funds have been eliminated.

The statement of activities presents a comparison between the expenses and program revenues directly associated with the different governmental functions and business-type activities to arrive at the net revenue or expense of the function or activity prior to the use of taxes and other general revenues. Program revenues include (1) fees, fines and service charges generated by the program or activity, (2) operating grants and contributions that are restricted to meeting the operational requirements of the program or activity, and (3) capital grants and contributions that are restricted to meeting the capital requirements of the program or activity.

*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, which constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Separate financial statements are presented for the two major fund categories: governmental and proprietary. An emphasis of the fund financial statements is placed on major governmental and enterprise funds. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

**TOWN OF WELCH**  
Notes to the Financial Statements  
June 30, 2011  
(continued)

**Note 1 - Summary of Significant Accounting Policies** (continued)

**1.C. Basis of Presentation** (continued)

*Fund Financial Statements:* (continued)

- a. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least ten percent (10%) of the corresponding total for all funds of that category or type, and
- b. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental fund or enterprise fund are at least five percent (5%) of the corresponding total for all governmental and enterprise funds combined.
- c. A fund not meeting the criteria of (a) and (b), except that management has elected to report the fund as a major fund due to its significance to users of the financial statements.

All remaining governmental and enterprise funds not meeting the above criteria are aggregated and reported as non-major funds. The funds of the financial reporting entity are described below:

**Governmental Funds**

The Town's major governmental funds are the General Fund, which accounts for all governmental activity not required to be accounted for in another fund, and the Fire Department Fund, which accounts for activity of the local volunteer Fire Department.

The Town's non-major governmental fund is the Cemetery Fund, which accounts for investments and maintenance of the local cemetery.

**Proprietary Funds**

The Town's only proprietary fund is the Welch Public Works Authority, which accounts for the assets, liabilities, revenues and expenses of the Town's water and sewer services.

**TOWN OF WELCH**  
Notes to the Financial Statements  
June 30, 2011  
(continued)

**Note 1 - Summary of Significant Accounting Policies** (continued)

**1.D. Measurement Focus and Basis of Accounting**

Measurement focus is a term used to describe *how* transactions are recorded within the financial statements. Basis of accounting refers to *when* transactions are recorded regardless of the measurement focus applied.

**Measurement Focus**

*Government-wide and Proprietary Fund Financial Statements*

In the government-wide Statement of Net Assets and the Statement of Activities, and the proprietary fund statements, the “*economic resources*” measurement focus is applied. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent, financial or nonfinancial) associated with their activities are reported.

*Government Fund Financial Statements*

In the governmental fund financial statements, a “*current financial resources*” measurement is applied. Under this focus, only current financial assets and liabilities are generally included on the balance sheets. 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.

**Basis of Accounting**

*Government-wide and Proprietary Fund Financial Statements*

In the government-wide Statement of Net Assets and Statement of Activities, and the proprietary fund financial statements, the accrual basis of accounting is applied. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

**TOWN OF WELCH**  
Notes to the Financial Statements  
June 30, 2011  
(continued)

**Note 1 - Summary of Significant Accounting Policies** (continued)

**1.D. Measurement Focus and Basis of Accounting** (continued)

**Basis of Accounting** (continued)

*Governmental Fund Financial Statements*

In the governmental fund financial statements, the modified accrual basis of accounting is applied. Under the modified accrual basis of accounting, revenues are recognized when “measurable and available”. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Town has defined “available” as collected within 30 days after year end. Sales, cigarette, motor vehicle, alcohol beverage and franchise taxes and interest are considered susceptible to accrual. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general long-term debt principal and interest which are recorded as expenditures to the extent they have matured. Proceeds of general long-term debt and capital leases are reported as other financial sources.

**1.E. Assets, Liabilities and Net Assets**

**Cash and Cash Equivalents**

Cash and cash equivalents include all demand accounts, savings accounts, and certificates of deposit with an original maturity of three months or less.

**Investments**

Investments consist of certificates of deposit with maturities greater than three months when purchased. All investments are recorded at cost, which approximates market value.

The Town Clerk has the responsibility for daily cash management activities and determines the amount of funds to be invested and length of time. The Board of Trustees, by investment resolution, grants final approval for investment of all Town funds. Additional cash and investment disclosures are presented in Note 3.

**TOWN OF WELCH**  
Notes to the Financial Statements  
June 30, 2011  
(continued)

**Note 1 - Summary of Significant Accounting Policies** (continued)

**1.E. Assets, Liabilities and Net Assets** (continued)

**Receivables**

Material receivables in governmental funds types and governmental activities include revenue accruals such as sales tax, cigarette tax, alcoholic beverage tax, auto tax and gasoline tax and other similar intergovernmental revenues since they are usually both measureable and available. These are reported as *Due from Other Governments*.

Material receivables in proprietary type funds and business-type activities consist of revenues earned at year-end and not yet received. Billed utility accounts receivable comprise these receivables.

**Inventories and Prepaids**

The value of consumable inventories at June 30, 2011 is not material to the financial statements. Acquisitions are considered expenditures at the time of purchase and are not recorded as assets for financial statement purposes. Prepaids use the consumption method of reporting.

**Restricted Assets**

Restricted assets include current assets of enterprise funds and business-type activities that are legally restricted as to their use. The primary restricted assets are related to promissory note trustee accounts restricted for debt service and deposits held for refund.

**Capital Assets and Depreciation**

The accounting treatment over property, plant and equipment (capital assets) depends on whether the assets are used in governmental fund type or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

**TOWN OF WELCH**  
Notes to the Financial Statements  
June 30, 2011  
(continued)

**Note 1 - Summary of Significant Accounting Policies** (continued)

**1.E. Assets, Liabilities and Net Assets** (continued)

**Capital Assets and Depreciation** (continued)

In the government-wide financial statements, property, plant and equipment are accounted for as capital assets. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated capital assets, which are recorded at their estimated fair value at the date of donation.

Prior to July 1, 2003, governmental funds' infrastructure assets were not capitalized and the Town is not required to account for infrastructure assets acquired prior to July 1, 2003. Governmental fund infrastructure assets have been recorded beginning July 1, 2003. The cost of normal maintenance and repairs to these assets that do not add materially to the value of the asset or materially extend the assets' useful lives are not capitalized.

Depreciation of all exhaustible capital assets is recorded as an operating expense in proprietary fund financial statements and an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets.

Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings	40 years
Other improvements	5-50 years
Machinery and equipment	7-10 years
Office machinery and equipment	2-7 years
Vehicles	5 years
Infrastructure	20-50 years

In the governmental fund financial statements, capital assets acquired are accounted for as capital outlay expenditures.

**TOWN OF WELCH**  
Notes to the Financial Statements  
June 30, 2011  
(continued)

**Note 1 - Summary of Significant Accounting Policies** (continued)

**1.E. Assets, Liabilities and Net Assets** (continued)

**Long-term Debt**

Accounting treatment of long-term debt varies depending upon the source of repayment and the measurement focus applied and whether the debt is reported in the governmental-wide or fund financial statements.

All long-term debt to be repaid from governmental activities and business-type activities, and proprietary fund resources are reported as liabilities as incurred. The long-term debt consists primarily of notes payable.

Long-term debt of governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as other financing resources and payment of principal and interest are reported as expenditures.

**Equity Classification**

*Government-Wide and Proprietary Fund Financial Statements:*

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt - consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets - consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets - all other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.



**TOWN OF WELCH**  
Notes to the Financial Statements  
June 30, 2011  
(continued)

**Note 1 - Summary of Significant Accounting Policies** (continued)

**1.E. Assets, Liabilities and Net Assets** (continued)

**Equity Classification** (continued)

*Governmental Fund Financial Statements*

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Proprietary fund equity is classified the same as in the government-wide statements.

**1.F. Interfund Transactions**

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursement to a fund or expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the fund that is reimbursed.

All other inter-fund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other inter-fund transfers are reported as operating transfers.

**1.G. Revenues, Expenditures and Expenses**

**Sales Tax**

The Town levies a two cent sales tax on taxable sales. The sales tax is collected by the Oklahoma Tax Commission and remitted to the Town in the month following receipt by the Tax Commission.

Sales tax resulting from sales occurring prior to year end and received by the Town after year end have been accrued and are included under the caption *Due from Other Governments* because they represent taxes on sales occurring during the reporting period.

**TOWN OF WELCH**  
Notes to the Financial Statements  
June 30, 2011  
(continued)

**Note 1 - Summary of Significant Accounting Policies** (continued)

**1.G. Revenues, Expenditures and Expenses** (continued)

**Expenditures and Expenses**

In the government-wide statement of activities, expenses, including depreciation of capital assets, are reported by function and activity. In the governmental fund financial statements, expenditures are reported by class as current (further reported by function), capital outlay and debt service. In proprietary fund financial statements, expenses are reported by object or activity.

**1.H. Use of 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 - Stewardship, Compliance and Accountability**

By its nature as a local government unit, the Town is subject to various federal, state and local laws and contractual regulations.

**2.A. Deficit Fund Balances or Net Assets**

Title 11, Section 17-211 of the Oklahoma Statutes prohibits the creation of a deficit fund balance in any individual fund of the Town (excluding public trusts). At June 30, 2011, the Town reported no individual fund deficits.

**2.B. Risk Management**

The Town is exposed to various risks of loss from torts; theft, damage and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and accidental death benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in the fiscal year ending June 30, 2011.

**TOWN OF WELCH**  
Notes to the Financial Statements  
June 30, 2011  
(continued)

**Note 2 - Stewardship, Compliance and Accountability** (continued)

**2.C. Workers' Compensation Plan**

The Town is a participant in the CompSource Oklahoma Plan. The Town pays fees set by the Plan, which are retained as loss funds set aside for claims. Therefore, the Town's liability for claim losses is limited to the fees it pays into the Plan.

**2.D. Deposits and Investments Requirements**

In accordance with State law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at the lower of market or par. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain State of Oklahoma or political subdivision debt obligations, surety bonds or certain letters of credit. As required by 12 U.S.C.A. Section 1823(e), all financial institutions pledging collateral to the Town must have a written collateral agreement approved by the board of directors or loan committee.

Investments of a Town (excluding Public Trusts) are limited by State Law to the following:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State of Oklahoma is pledged.
- b. Certificates of deposit or savings accounts either insured or secured with acceptable collateral with in-state financial institutions and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. Negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments and bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.

**TOWN OF WELCH**  
Notes to the Financial Statements  
June 30, 2011  
(continued)

**Note 2 - Stewardship, Compliance and Accountability** (continued)

**2.D. Deposits and Investments Requirements** (continued)

- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator, debentures issued by the Federal Housing Administrator and obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC that include investments mentioned in the previous paragraphs a, b, c and d.

Public trusts are not subject to the above noted investment limitations and are primarily governed by any restrictions in their trust or bond indentures.

**2.E. Debt Restrictions and Covenants**

**General Long-term Debt**

As required by the Oklahoma State Constitution, the Town (excluding Public Trusts) may not incur any indebtedness that would require payment from resources beyond the current fiscal year revenue without first obtaining voter approval. As of June 30, 2011, the Town had no general obligation debt.

**Notes Payable**

The loan agreements with United States Department of Agriculture, Rural Development relating to construction note payables of the Welch Public Works Authority contain a number of financial restrictions and covenants. These include covenants requiring reserve account balances. The Welch Public Works Authority complied with the requirements of the loan agreements in all material respects for the fiscal year ended June 30, 2011.

**TOWN OF WELCH**  
Notes to the Financial Statements  
June 30, 2011  
(continued)

**Note 3 - Detail Notes - Transaction Classes/Accounts**

**3.A. Deposits and Investments**

The following is a table of deposits and investments for the Town at June 30, 2011 by type.

	<u>Credit Rating</u>	<u>Carrying Value</u>	<u>On Demand</u>	<u>Maturity in Years</u>	
				<u>Less Than One</u>	<u>1-5</u>
Type Deposits:					
Demand deposits	N/A	\$ 174,135	174,135		
Time deposits	N/A	75,355		0	75,355
Total deposits		<u>\$ 249,490</u>			
Reconciliation to Statement of Net Assets:					
Cash and equivalents		\$ 93,564			
Investments		50,828			
Restricted cash and equivalents		80,571			
Restricted investments		<u>24,527</u>			
Total		<u>\$ 249,490</u>			

*Custodial Credit Risk* - Deposits in financial institutions, reported as components of cash, cash equivalents and investments were fully insured by depository insurance at June 30, 2011.

*Investment Interest Rate Risk* - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Town's investment policy limits the Town's investment portfolio to maturities of not more than two years. The Town discloses its exposure to interest rate risk by disclosing the maturity date ranges of its various investments.

*Investment Credit Risk* - The Town's investment policy limits investments to those allowed by state law applicable to municipalities. These investment limitations are described in Note 2.D. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

**TOWN OF WELCH**  
Notes to the Financial Statements  
June 30, 2011  
(continued)

**Note 3 - Detail Notes - Transaction Classes/Accounts** (continued)

**3.B. Receivables**

**Accounts Receivable**

Accounts receivable of the governmental activities is net of allowance for uncollectible accounts on the statement of net assets. Accounts receivable of the business-type activities consist of customers' utilities services provided prior to, due at, year end. It is the Town's policy to write off uncollectible accounts throughout the year in the business-type activities and not to record an allowance for uncollectible accounts on the statement of net assets.

The governmental activities receivables include sales tax, franchise taxes and other taxes receivables as follows:

<b>Governmental Activities:</b>	<b>Sales Tax</b>	<b>Franchise Taxes</b>	<b>Other Taxes</b>	<b>Total</b>
Accounts receivable	\$ 9,838	914	1,018	<u>11,770</u>
<b>Business-type Activities:</b>	<b>Water</b>	<b>Trash</b>	<b>Sewer</b>	<b>Total</b>
Accounts receivable	\$ 16,286	8,468	7,817	<u>32,571</u>

**3.C. Restricted Assets**

Restricted assets consist of the following:

	<b>Cash</b>	<b>Certificates of Deposit</b>
Utility deposit	\$ -	14,741
Debt reserve - water system	25,284	-
Debt reserve - sewer system	-	11,586
Debt reserve - bond account	54,998	-
Debt reserve - sinking fund	289	-
Total	<u>\$ 80,571</u>	<u>26,327</u>

**TOWN OF WELCH**  
Notes to the Financial Statements  
June 30, 2011  
(continued)

**Note 3 - Detail Notes - Transaction Classes/Accounts** (continued)

**3.D. Capital Assets**

Capital Asset Activity – Governmental Activities

Capital asset activity for governmental activities for the year ended June 30, 2011, were as follows:

	<u>Balance 6/30/10</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance 6/30/11</u>
<u>Capital assets being depreciated:</u>				
Buildings	\$ 68,317	-	-	68,317
Equipment	99,176	-	-	99,176
Vehicles	182,109	-	-	182,109
Infrastructure	280,264	-	-	280,264
Total depreciable capital assets	<u>629,866</u>	<u>-</u>	<u>-</u>	<u>629,866</u>
<u>Accumulated depreciation</u>				
Buildings	(27,354)	(3,416)	-	(30,770)
Equipment	(96,132)	(802)	-	(96,934)
Vehicles	(97,746)	(16,509)	-	(114,255)
Infrastructure	(93,752)	(13,878)	-	(107,630)
Total accumulated depreciation	<u>(314,984)</u>	<u>(34,605)</u>	<u>-</u>	<u>(349,589)</u>
Capital assets being depreciated, net	<u>314,882</u>	<u>(34,605)</u>	<u>-</u>	<u>280,277</u>
<u>Capital assets not being depreciated:</u>				
Land	3,500	-	-	3,500
Construction in progress	41,493	-	-	41,493
Total non-depreciable capital assets	<u>44,993</u>	<u>-</u>	<u>-</u>	<u>44,993</u>
Total capital assets	<u>\$ 359,875</u>	<u>(34,605)</u>	<u>-</u>	<u>325,270</u>

**TOWN OF WELCH**  
Notes to the Financial Statements  
June 30, 2011  
(continued)

**Note 3 - Detail Notes - Transaction Classes/Accounts** (continued)

**3.D. Capital Assets** (continued)

Capital Asset Activity – Business-type Activities

Capital asset activity for the business-type activities for the year ended June 30, 2011, were as follows:

	<u>Balance 6/30/10</u>	<u>Additions</u>	<u>Dispositions/ Transfers</u>	<u>Balance 6/30/11</u>
<u>Capital assets being depreciated:</u>				
Buildings	\$ 6,946	-	-	6,946
Water and sewer system	2,655,027	9,314	-	2,664,341
Equipment	37,155	-	-	37,155
Vehicles	5,800	-	-	5,800
Total depreciable capital assets	<u>2,704,928</u>	<u>9,314</u>	<u>-</u>	<u>2,714,242</u>
<u>Accumulated depreciation</u>				
Buildings	(6,946)	-	-	(6,946)
Water and sewer system	(1,638,345)	(107,153)	-	(1,745,498)
Equipment	(21,940)	(2,572)	-	(24,512)
Vehicles	(5,717)	(83)	-	(5,800)
Total accumulated depreciation	<u>(1,672,948)</u>	<u>(109,808)</u>	<u>-</u>	<u>(1,782,756)</u>
Capital assets being depreciated, net	1,031,980	(100,494)	-	931,486
<u>Capital assets not being depreciated:</u>				
Land	<u>211,165</u>	<u>-</u>	<u>-</u>	<u>211,165</u>
Net book value	<u>\$ 1,243,145</u>	<u>(100,494)</u>	<u>-</u>	<u>1,142,651</u>



**TOWN OF WELCH**  
Notes to the Financial Statements  
June 30, 2011  
(continued)

**Note 3 - Detail Notes - Transaction Classes/Accounts** (continued)

**3.D. Capital Assets** (continued)

Depreciation Charges

Depreciation expense by functional category for the governmental activities were as follows:

<b>Functional Category</b>	<b>Amount</b>
General Government	\$ 15,988
Public Safety	18,617
Total	\$ 34,605

**3.F. Long-term Debt**

The reporting entity's long-term debt is segregated by the amounts involving governmental activities and business-type activities.

**Governmental Activities Long-term Debt**

The Town entered into an operating lease on June 15, 2010 for a 1990 GMC pumper fire truck. As of June 30, 2011, the total remaining lease payments under the operating lease are as follows:

<b>Year Ended June 30</b>	<b>Lease Payments</b>
2012	\$ 6,009
2013	6,009
2014	6,009
2015	6,009
2016	6,009
Thereafter	6,009
Total	\$ 36,054

**TOWN OF WELCH**  
Notes to the Financial Statements  
June 30, 2011  
(continued)

**Note 3 - Detail Notes - Transaction Classes/Accounts** (continued)

**3.F. Long-term Debt** (continued)

**Business-type Activities Long-term Debt**

As of June 30, 2011, the long-term debt payable from enterprise fund resources consisted of the following:

The Authority issued a promissory note dated July 21, 1995, for the purpose of construction, installation and enlargement of the water distribution system. The note bears an interest rate of 4.5% per annum with monthly installments of \$1,881, including interest, until July 2035. The balance at June 30, 2011 was \$318,509. The note is secured by the water distribution system.

The Authority issued a promissory note dated July 23, 1986, for the purpose of construction, installation and enlargement of the sewer system. The note bears an interest rate of 5% per annum with monthly installments of \$876, including interest, until July 2026. The balance at June 30, 2011 was \$104,836. The note is secured by the water distribution system.

The Authority issued a promissory note in the amount of \$126,400, dated June 25, 2007, for the purpose of purchasing the land for the sewer system. The note bears an interest rate of 5.75% per annum with monthly installments of \$1,050, including interest, until June 25, 2022. The balance at June 30, 2011 was \$98,896. The note is secured by the land. Total notes payable to be repaid by the Authority at June 30, 2011 are as follows:

Long-term debt	\$ 522,241
Less current portion	(20,608)
Total long-term debt, less current portion	\$ <u>501,633</u>

**TOWN OF WELCH**  
Notes to the Financial Statements  
June 30, 2011  
(continued)

**Note 3 - Detail Notes - Transaction Classes/Accounts** (continued)

**3.F. Long-term Debt** (continued)

**Business-type Activities Long-term Debt** (continued)

The Authority's maturities of long-term debt are as follows:

<u>Year Ended June 30</u>	<u>Principal Reductions</u>	<u>Interest Requirements</u>	<u>Total</u>
2012	\$ 20,608	25,076	45,684
2013	21,661	24,023	45,684
2014	22,769	22,915	45,684
2015	23,935	21,749	45,684
2016	25,161	20,523	45,684
2017-2021	146,543	81,877	228,420
2022-2026	114,296	48,079	162,375
2027-2031	87,230	25,630	112,860
2032-2036	60,038	5,382	65,420
Total	\$ <u>522,241</u>	<u>275,254</u>	<u>797,495</u>

**Changes in Long-term Debt - Governmental & Business-type Activities**

The following is a summary of changes in long-term debt for the year ended June 30, 2011:

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2011</u>	<u>Amount due in one year</u>
<b>Business-type activities:</b>					
Notes payable	\$ 539,297	-	(17,056)	522,241	20,608

**TOWN OF WELCH**  
Notes to the Financial Statements  
June 30, 2011  
(continued)

**Note 3 - Detail Notes - Transaction Classes/Accounts** (continued)

**3.G. Meter Deposits**

The Public Works Authority maintains a time deposit account for obligations associated with meter deposits. At June 30, 2011, The Public Works Authority meets the required obligations to reserve adequate assets to refund these deposits, as required by state statute as follows:

Restricted Investments	\$	12,941
Restricted Cash and Cash Equivalents		1,800
		14,741
Total Available Funds		14,741
Utility deposit liability		14,741

**Note 4 - Loan Covenant**

The loan covenant with Rural Development requires the Authority to impose and collect such rates and charges that will provide an amount sufficient for the payment of the operation and maintenance of the system, the annual installment payments on the note, and maintenance of the various funds. Computation of compliance with this covenant is as follows:

Income (loss) from operations	\$	(58,422)
Depreciation		109,808
Other revenue (expense)		(7,172)
Annual installment payments on notes		(33,084)
Available funds over loan covenant requirements	\$	11,130

**TOWN OF WELCH**  
Notes to the Financial Statements  
June 30, 2011  
(continued)

**Note 4 - Loan Covenant** (continued)

Terms of the water distribution system and sewer system loans require establishment of a debt reserve fund. Monthly deposits of 10% of the regular installments of principal and interest are to be made until the balance of such fund equals one year of principal and interest payments. Compliance with loan covenants is as follows:

**Water Debt Service Reserve Fund:**

Cash	\$ 25,284
Total available funds	25,284
Loan resolution requirements	(22,572)
Available funds over requirements	<u>\$ 2,712</u>

**Sewer Debt Service Reserve Fund:**

Certificate of deposit	\$ 11,586
Total available funds	11,586
Loan resolution requirements	(10,512)
Available funds over requirements	<u>\$ 1,074</u>

**Note 5 - Interfund Transfers**

Inter-fund transfers for the year ended June 30, 2011 were as follows:

<u>Transfer from</u>	<u>Amount</u>	<u>Nature of Interfund Balance</u>
Fire Fund	\$ (11,325)	To subsidize operations of the general fund
General Fund	(6,545)	To subsidize operations of the cemetery fund
General Fund	<u>(21,025)</u>	To subsidize operations of the PWA
	<u>\$ (38,895)</u>	

**TOWN OF WELCH**  
Notes to the Financial Statements  
June 30, 2011  
(continued)

**Note 5 - Interfund Transfers** (continued)

	<u>Transfers to Other Funds</u>	<u>Transfers from Other Funds</u>	<u>Net Transfers</u>
<b>Reconciliation to fund financial statements:</b>			
Governmental Funds	\$ (38,895)	17,870	(21,025)
Enterprise Funds	-	21,025	21,025
Totals	<u>\$ (38,895)</u>	<u>38,895</u>	<u>-</u>

**Note 6 - Town Officials**

The Board of Trustees of the *Town of Welch*, Oklahoma as of June 30, 2011, were as follows:

<u>Office</u>	<u>Official</u>
Mayor	Winston McKeon
Trustee	Shannon Biggs
Trustee	Rusty Satterwhite
Trustee	Edith Fox
Trustee	Maxine Highsmith
Clerk-Treasurer	Kenni Morton

**Note 7 – Commitments and Contingencies**

As of June 30, 2011 the Town of Welch was subject to a Consent Order issued by the Oklahoma Department of Environmental Quality, Water Quality Division issued January 27, 2011, Case #10-290. The Order was issued as a result of noncompliance with applicable water quality regulations. The Order included monetary penalties and a required plan of action for the Town to insure future compliance with applicable water quality regulations. As of June 28, 2012, the Town is compliant with that plan as detailed in the Order.

**TOWN OF WELCH**  
Notes to the Financial Statements  
June 30, 2011  
(continued)

**Note 8 - Budget Policy**

The Town prepares its annual budget under the provisions of the Oklahoma Municipal Budget Act of 1979 (the "Budget Act"). In accordance with those provisions, a budget is legally adopted by the Board of Trustees for the General Fund and Special Revenue Funds that include revenues and expenditures. The Budget is prepared using the cash basis and budget laws of the State of Oklahoma. As of June 30, 2011, the Town is unable to report the fiscal year 2011 budget as required by Oklahoma Statutes.

**Note 9 – Related Party Transactions**

The Town of Welch receives contributions from a not for profit organization whose purpose is to benefit the Fire Department of the Town. As of June 30, 2011, cash deposits of approximately \$13,000 raised by this organization have been reported in the Fire Department Fund.

**Note 10 - Subsequent Events**

Subsequent events communicated by the Town were related to payment of delinquent taxes, penalties and interest to the Internal Revenue Service; and potential penalties related to the Council on Law Enforcement and Training (CLEET) fees that were delinquent in payment. The Town has paid the Internal Revenue Service \$4,569 in delinquent taxes, penalties and interest. Welch PWA has paid the Internal Revenue Service \$27,019 in delinquent taxes, penalties and interest.

Management has evaluated subsequent events up to and including June 28, 2012 which is the date the financial statements were available for issuance, and no additional disclosures are required.

## **REQUIRED SUPPLEMENTARY INFORMATION**



***TOWN OF WELCH***  
Budgetary Comparison Schedule  
Budget (Non-GAAP Basis) and Actual (with Variances)  
General and Fire Fund  
June 30, 2011

Management was unable to provide the fiscal year 2011 budget, therefore, no budget to actual comparison is presented for fiscal year 2011.

# WINGARD, RAGSDALE & LANGLEY

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

To the Town Council  
Town of Welch  
Craig County, State of 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 Town of Welch, State of Oklahoma, as of and for the years ended June 30, 2009, 2010, and 2011, which collectively comprise the Town of Welch, State of Oklahoma's basic financial statements and have issued our reports thereon dated June 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

In planning and performing our audit, we considered Town of Welch, State of Oklahoma'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 Welch, State of Oklahoma's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Welch, State of Oklahoma's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider items 2011-1, 2011-3, 2011-4, and 2011-5 described in the accompanying schedule of findings and responses to be material weaknesses.

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. We consider item 2011-2 described in the accompany schedule of findings and responses to be a significant deficiency.

#### COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Town of Welch, State of Oklahoma'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.

Town of Welch, State of Oklahoma'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 of Welch, State of Oklahoma's response and, accordingly, we express no opinion on it.

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



**WINGARD, RAGSDALE & LANGLEY**

*CERTIFIED PUBLIC ACCOUNTANTS, PLLC*

**JUNE 28, 2012**

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## SCHEDULE OF FINDINGS AND RESPONSES

The following represents internal control deficiencies as defined and classified in the *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* for the Town of Welch, Oklahoma for Periods Ending June 30, 2009, 2010, 2011

### 2011-1 Adequate Record Keeping

*Criteria or specific requirement:* The Town of Welch is a municipal entity whose actions are governed by Oklahoma Statutes. Those Statutes require documentation of the Council's actions regarding municipal operations.

*Condition:* Requests for minutes of Council actions revealed some minutes of the Council were not available in the Town's records.

*Context:* The Town of Welch, during the periods in question, had issues, subsequently recognized and corrected by the Town, with certain documentation processes.

*Effect:* The Town of Welch cannot provide if needed, actions as taken by the Council during periods where documented records of those meetings are unavailable.

*Cause:* The Town does not have documented policies and procedures governing procedural protocol for the recording, maintenance, and storage of Town records.

*Recommendation:* The Town should develop policies and procedures for all significant transaction classes and operational functions.

*Views of responsible officials and planned corrective actions:* We understand these requirements and will develop a plan of action to address these issues.

### 2011-2 Relationships With Other Entities

*Criteria or specific requirement:* The Town of Welch must identify and properly report the activities of the Town and relationships with other legal entities.

*Condition:* The Town current reports, as part of the cash balance of the Town's Fire Department Fund, amounts held by a not for profit organization, the Town of Welch Fire Department Fund, Federal identification #730504830.

## **SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED**

*Context:* The Town of Welch, during the periods covered in this report, reported the cash balance of the defined entity in the Town's fire department fund total cash balance, however these amounts are on deposit in a bank account owned by the referenced entity.

*Effect:* The Town of Welch's fire department fund cash balance is overstated.

*Cause:* The Town does not understand the reporting relationship with the referenced entity.

*Recommendation:* Although the referenced entities not for profit purpose is for the benefit of the Town, these amounts should be excluded from the Town's financial statements, or the relationship with the referenced entity should be established under guidelines which would allow the Town to report this balance.

*Views of responsible officials and planned corrective actions:* We understand these requirements and will develop a plan of action to address this issue.

## **2011-3 Policies and Procedures**

*Criteria or specific requirement:* The Town of Welch must maintain an adequate internal control structure over its operational and financial reporting matters.

*Condition:* The Town does not maintain documented policies and procedures with respect to its operations as it relates to significant municipal matters involving operational, financial, or employee related matters. Specific errors, as discussed in other areas of this report, and specifically noted when testing the classification of certain expenditures, were misstated as a result of this deficiency. Additionally, compliance with Statutes and regulation governing budgetary reporting and other activities were in violation of application requirements.

*Context:* The Town of Welch, during the periods covered in this report, when requested, reported having no documented policies and procedures for items as identified above.

*Effect:* The Town of Welch's internal control structure is deficient with respect to matters identified above; resulting in control deficiencies, as reported in this Schedule.

*Cause:* The Town does not have documented policies and procedures governing procedural protocol for significant municipal operational, financial, or employee matters.

*Recommendation:* The Town should develop policies and procedures for all significant municipal operational, financial, or employee matters.

*Views of responsible officials and planned corrective actions:* We understand these requirements and will develop a plan of action to address this issue.

## **SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED**

### **2011-4 Payroll Procedures**

*Criteria or specific requirement:* The Town of Welch, as an employer, has certain requirements with respect to reporting financial transactions as it pertains to payroll to Federal and State taxing authorities.

*Condition:* The Town does not maintain documented policies and procedures with respect to its operations, including payroll, as identified above. As such, payroll related issues for non-compliance with tax authorities have resulted in unnecessary penalties, and could result in additional similar items a result of current payroll practices.

*Context:* During testing of payroll expenditures, it was noted the Town was deficient in filing required quarterly reports to the Internal Revenue Service (IRS), resulting in penalties for failure to file, timely, these reports. Further testing revealed the Town is currently paying certain Town employees amounts in lue of providing them an employer sponsored, health insurance benefit. If such a benefit was provided, payments made by the Town for health insurance on behalf of its employees would not constitute taxable income to the employee. Currently, the direct payments being made to employees do not qualify as an employer provided health care plan (as defined by the IRS) and therefore should be included as taxable income to the recipient employees. As income to the employee the Town is responsible for calculating and remitting tax withholdings to the applicable taxing authority for these amounts and reporting these payments as income to the employee in their annual compensation.

*Effect:* The Town is required to properly withhold and match certain percentages of all payments made to employees for amounts paid and not reported as income to employees as described above. Additionally, the Town will be penalized for non-compliance with such requirements, in addition to each employee's personal annual tax income is reported in error, resulting in similar circumstances for each employee.

*Cause:* The Town does not have documented policies and procedures governing procedural protocol for significant municipal including payroll.

*Recommendation:* The Town should develop policies and procedures for all significant municipal operational, financial, or employee matters.

*Views of responsible officials and planned corrective actions:* We understand these requirements and will develop a plan of action to address this issue

## **2011-5 Governance over Financial Reporting**

*Criteria or specific requirement:* The Town of Welch must maintain an adequate internal control structure over its financial reporting matters.

*Condition:* Inherent in small municipalities like the Town of Welch, segregation of certain accounting duties is limited due to the limited number of staff. As such, alternative methods of maintaining the “check and balance” feature of segregated accounting procedures may require alternative solutions to meet those needs.

### **SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED**

*Context:* Observations and inquiries of the Town Clerk revealed her responsibilities included the billing, collection, depositing, and reconciling of the Town and Public Works activities. Without segregating these duties, there is a high risk of errors and the opportunity for other activities, including fraud. A specific functions noted where these risks are exceptionally high, was the Town’s use of a separate utility billing system that is not integrated with its accounting system. The lack of accounting policies requiring the periodic review of the reconciliation of these two systems is a common deficiency in internal control where such a deficiency results in negative consequences for similar entities.

*Effect:* The Town and Public Works financial records could be materially misstated and subject to fraudulent activity.

*Cause:* The Town does not have documented policies and procedures governing procedural protocol for significant municipal operational, financial, or employee matters.

*Recommendation:* The Town should develop policies and procedures for all significant municipal operational, financial, or employee matters.

*Views of responsible officials and planned corrective actions:* We understand these requirements and will develop a plan of action to address this issue.