TOWN OF WELCH
CRAIG COUNTY, OKLAHOMA

ANNUAL FINANCIAL STATEMENTS
AND ACCOMPANYING
INDEPENDENT AUDITOR'S REPORTS

FOR THE FISCAL YEAR ENDED
JUNE 30, 2012

OBER & ASSOCIATES, INC., PC
CERTIFIED PUBLIC ACCOUNTANTS
124 South Main Street
Miami, Oklahoma 74354

TOWN OF WELCH
ANNUAL FINANCIAL STATEMENTS
AND ACCOMPANYING INDEPENDENT AUDITOR'S REPORTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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TOWN OF WELCH, OKLAHOMA

LIST OF TOWN OFFICIALS

June 30, 2012

Board of Trustees

Mayor	Winston McKeon
Trustee	Shannon Biggs
Trustee	Edith Fox
Trustee	Maxine Highsmith
Trustee	Rusty Satterwhite

Treasurer/Clerk

Kenni Morton

OBER & ASSOCIATES INC., PC
CERTIFIED PUBLIC ACCOUNTANTS
124 South Main
Miami, Oklahoma 74354
918-542-4401

INDEPENDENT AUDITOR'S REPORT

To the Honorable Board of Trustees
Town of Welch, Craig County, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Welch, Craig County, Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Welch, Craig County, 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, each major fund, and the aggregate remaining fund information of the Town of Welch, Craig County, Oklahoma, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 27, 2013 on our consideration of the Town of Welch, Craig County, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The Town of Welch, Craig County, Oklahoma's management has not presented management's discussions and analysis or the budgetary comparison information that governmental 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 Government 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.

Ober & Associates, Inc., PC

OBER & ASSOCIATES, INC., PC
CERTIFIED PUBLIC ACCOUNTANTS
May 27, 2013

MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

BASIC FINANCIAL STATEMENTS

The basic financial statements include integrated sets of financial statements as required by the GASB. The sets of statements include:

- Government-wide financial statements
- Fund financial statements:
    - Governmental funds
    - Proprietary (enterprise) fund

In addition, the notes to the financial statements 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
June 30, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Totals
ASSETS			
Current Assets:			
Cash and cash equivalents (Note 3.A.)	$ 36,821	$ 65,371	$ 102,192
Investments (Note 3.A.)	44,340	-	44,340
Receivables	21,531	36,059	57,590
Due from other fund	20,244	2,643	22,887
Restricted Assets: (Note 3.C.)			
Cash and cash equivalents	-	26,497	26,497
Investments	-	27,165	27,165
Total Current Assets	122,936	157,735	280,671
Non-Current Assets:			
Capital Assets: (Note 3.D.)			
Non-depreciable	3,500	211,165	214,665
Depreciable, net of depreciation	288,261	865,641	1,153,902
Total Non-Current Assets	291,761	1,076,806	1,368,567
Total ASSETS	414,697	1,234,541	1,649,238
LIABILITIES			
Current Liabilities:			
Accounts payable	10,227	10,842	21,069
Accrued payroll liabilities	802	2,532	3,334
Accrued interest	-	604	604
Due to other fund	2,643	20,244	22,887
Meter deposits (Note 3.E.)	-	16,667	16,667
Current portion of notes and lease obligaions payable	4,751	26,996	31,747
Total Current Liabilities	18,423	77,885	96,308
Non-Current Liabilities: (Note 3.F.)			
Notes and lease obligations payable	21,496	494,319	515,815
Total Non-Current Liabilities	21,496	494,319	515,815
Total Liabilities	39,919	572,204	612,123
NET ASSETS			
Invested in capital assets, net of related debt	265,514	555,491	821,005
Restricted for:			
Meter deposits	-	16,667	16,667
Debt service	-	36,995	36,995
Unrestricted	109,264	53,184	162,448
Total NET ASSETS	$ 374,778	$ 662,337	$ 1,037,115

The accompanying notes are an integral part of these financial statements.

Town of Welch
Statement of Activities
For the Fiscal Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Business-type Activities	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Total
Primary Government:							
Governmental activities:							
General Government:							
Personal services	$ 39,968	$ -	$ -	$ -	$ (39,968)		$ (39,968)
Maintenance and operation	66,267	-	-	-	(66,267)		(66,267)
Total General Government	106,235	-	-	-	(106,235)		(106,235)
Public Safety and Judiciary:							
Animal control	634	-	-	-	(634)		(634)
Fire	37,519	26,473	8,145	-	(2,901)		(2,901)
Municipal court	6,000	44,494	-	-	38,494		38,494
Police	41,212	-	-	-	(41,212)		(41,212)
Total Public Safety and Judiciary	85,365	70,967	8,145	-	(6,253)		(6,253)
Culture, Parks and Recreation:							
Cemetery	7,415	675	-	-	(6,740)		(6,740)
Total Culture, Parks and Recreation	7,415	675	-	-	(6,740)		(6,740)
Total Governmental Activities	199,015	71,642	8,145	-	(119,228)		(119,228)
Business-type activities:							
Water system	364,313	258,722	-	13,769	-	(91,822)	(91,822)
Total Business-Type Activities	364,313	258,722	-	13,769	-	(91,822)	(91,822)
Total primary government	$ 563,328	$ 330,364	$ 8,145	$ -	(119,228)	(91,822)	(211,050)
General revenues:							
Taxes							
Sales taxes					67,929	-	67,929
Franchise taxes					21,602	-	21,602
Other public services taxes					12,050	-	12,050
Investment income					504	417	921
Miscellaneous					9,349	4,729	14,078
Transfers					-	-	-
Total general revenues, special items, and transfers					111,434	5,146	116,580
Change in net assets					(7,794)	(86,676)	(94,470)
Net assets - beginning					382,572	749,013	1,131,585
Net assets - ending					$ 374,778	$ 662,337	$ 1,037,115

The accompanying notes are an integral part of these financial statements.

Town of Welch
Balance Sheet
Governmental Funds
June 30, 2012

	Major		Nonmajor	
	General Fund	Fire Department Fund	Cemetery Association Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 15,136	$ 21,685	$ -	$ 36,821
Investments	7,743	3,077	33,520	44,340
Due from other fund	15,738	4,506	-	20,244
Receivable from other governments	13,931	-	-	13,931
Other receivables	7,599	-	-	7,599
Total ASSETS	$ 60,147	$ 29,268	$ 33,520	$ 122,935
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued expenses	$ 10,277	$ -	$ 763	$ 11,040
Accrued payroll liabilities	802	-	-	802
Due to other fund	2,643	-	-	2,643
Total LIABILITIES	13,722	-	763	14,485
Fund Balances:				
Assigned	-	29,268	33,520	62,788
Unassigned	46,475	-	-	46,475
Total Fund Balances	46,475	29,268	33,520	109,263
Total LIABILITIES AND FUND BALANCES	$ 60,197	$ 29,268	$ 34,283	

Reconciliation to Statement of Net Assets:

Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities of $629,274 are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of $337,513.	291,761
Long-term liabilities are not due and payable in the current period and, therefore, are not reported reported in the funds:	
Lease obligations payable	(26,246)
Net assets of governmental activities	$ 374,778

The accompanying notes are an integral part of these financial statements.

Town of Welch
Statement Of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2012

	Major		Nonmajor	
	General Fund	Fire Department Fund	Cemetery Association Fund	Total Governmental Funds
Revenues:				
Sales and other taxes	$ 79,979	$ -	$ -	$ 79,979
Franchise taxes	21,602	-	-	21,602
Fundraising gifts/donation	-	8,145	-	8,145
Charges for services	-	26,473	675	27,148
Traffic and city court fees	44,494	-	-	44,494
Investment income	346	11	147	504
Miscellaneous	6,967	1,899	475	9,341
Total Revenues	153,388	36,528	1,297	191,213
Expenditures:				
General Government:				
Personal services	39,968	-	-	39,968
Maintenance and operation	49,079	-	-	49,079
Public Safety and Judiciary:				
Animal control	634	-	-	634
Fire	-	19,473	-	19,473
Municipal court	6,000	-	-	6,000
Police	41,212	-	-	41,212
Culture, Parks and Recreation:				
Cemetery	-	-	7,415	7,415
Debt Service:				
Principal payments	-	4,282	-	4,282
Interest	-	1,727	-	1,727
Total Expenditures	136,893	25,482	7,415	169,790
Excess (deficiency) of revenues over expenditures	16,495	11,046	(6,118)	21,423
Other Financing Sources (Uses):				
Transfer in (out)	(2,169)	108	2,061	-
Total Other Financing Sources (Uses)	(2,169)	108	2,061	-
Net change in fund balances	14,326	11,154	(4,057)	21,423
Fund balance - beginning	32,149	18,114	37,577	87,840
Fund balances - ending	$ 46,475	$ 29,268	$ 33,520	$ 109,263

(continued)

The accompanying notes are an integral part of these financial statements.

Town of Welch
Statement Of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2012

Reconciliation to the Statement of Activities:	
Net change in fund balances - total governmental funds	21,423
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
Depreciation expense	(33,509)
	(33,509)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:	
Principal payments on long-term debt	4,292
Change in Net Assets of Governmental Activities	$ (7,794)

The accompanying notes are an integral part of these financial statements.

Town of Welch
Statement of Net Assets
Proprietary Fund
June 30, 2012

	Welch Public Works Authority
ASSETS	
Current Assets:	
Cash and cash equivalents	$ 65,371
Accounts receivable, net	36,059
Due from general fund	2,643
Restricted Assets:	
Cash and cash equivalents	26,497
Investments	27,165
Total Current Assets	157,735
Noncurrent Assets:	
Capital Assets:	
Non-depreciable	211,165
Depreciable, net of depreciation	865,641
Total Noncurrent Assets	1,076,806
Total Assets	1,234,541
LIABILITIES	
Current Liabilities:	
Accounts payable	10,842
Accrued payroll liabilities	2,532
Accrued interest	604
Due to other funds	20,244
Meter deposit	16,667
Current portion of notes and lease obligations payable	26,996
Total Current Liabilities	77,885
Noncurrent Liabilities:	
Notes and lease obligations payable	494,319
Total Noncurrent Liabilities	494,319
Total Liabilities	572,204
NET ASSETS	
Invested in capital assets, net of related debt	555,491
Restricted for debt service and meter deposits	53,662
Unrestricted	53,184
Total net assets	$ 662,337

The accompanying notes are an integral part of these financial statements.

Town of Welch
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund
For the Fiscal Year Ended June 30, 2012

	Welch Public Works Authority
Operating Revenues:	
Water revenues	$ 135,837
Sewer revenues	54,536
Sanitation revenues	68,349
Total Operating Revenues	258,722
Operating Expenses:	
Personnel services	56,905
Contractual services	62,383
Repairs and maintenance	33,262
Utilities	5,006
Other supplies and expenses	67,043
Depreciation	113,879
Total Operating Expenses	338,478
Operating Income (Loss)	(79,756)
Non-Operating Revenues (Expenses)	
Capital grants and contributions	13,769
Miscellaneous revenue	4,729
Interest income	417
Interest expense	(25,835)
Total Non-operating Revenue (Expenses)	(6,920)
Net Income (Loss) Before Transfers	(86,676)
Transfers in (out)	-
Change in net assets	(86,676)
Total net assets - beginning	749,013
Total net assets - ending	$ 662,337

The accompanying notes are an integral part of these financial statements.

Town of Welch
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2012

	Welch Public Works Authority
Cash Flows From Operating Activities	
Cash received from customers	$ 257,160
Cash received from other funds	20,244
Cash paid to other funds	(2,643)
Cash paid for salaries and benefits	(78,522)
Cash paid for goods and services	(156,851)
Net Cash Provided by (Used in) Operating Activities	39,388
Cash Flows From Noncapital Financing Activities	
Grant revenue for capital assets	13,769
Miscellaneous income	4,729
Net Cash Provided by (Used in) Noncapital Financing Activities	18,498
Cash Flows From Capital and Related Financing Activities	
Proceeds from capital borrowings	25,800
Purchases of capital assets	(48,034)
Principal paid on capital debt	(26,726)
Interest paid on capital debt	(26,161)
Net Cash Provided by (Used in) Capital and Related Activities	(75,121)
Cash Flows From Investing Activities	
Interest earnings	547
Proceeds from sales of investments	1,800
Purchases of investments	(139)
Net Cash Provided by (Used in) Investing Activities	2,208
Net increase (decrease) in cash and cash equivalents	(15,027)
Beginning cash and cash equivalents	106,895
Ending cash and cash equivalents	$ 91,868
Reconciliation of net income to net cash provided (used) by operating activities:	
Operating Income (Loss)	$ (79,756)
Adjustments to reconcile net income to net cash provided (used) by operating activities:	
Depreciation	113,879
Change in assets and liabilities:	
Increase in due from general fund	(2,643)
Increase in due to other funds	20,244
Increase in accounts receivable	(3,488)
Increase in accounts payable	10,843
Decrease in accrued payroll liabilities	(21,617)
Increase in meter deposits	1,926
Net cash provided by (used in) operating activities	$ 39,388

The accompanying notes are an integral part of these financial statements.

TOWN OF WELCH, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS

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Note 1. Summary of Significant Accounting Policies

1.A. Introduction

The financial statements of the Town of Welch (Town) 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 Statement No. 14, "The Financial Reporting Entity." 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 or 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.

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

Note 1. Summary of Significant Accounting Policies: continued

1.C. Basis of Presentation: continued

Government-Wide Financial Statements: continued

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 separate accounting entities. 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:

a. Total assets, liabilities, revenues, or expenditures/expenses of that 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.

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.

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.

Note 1. Summary of Significant Accounting Policies: continued

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 of 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.

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 Prepaid Expenses

The value of consumable inventories at June 30, 2012 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. Prepaid expenses 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.

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:

Asset Class	Estimated Useful Lives
Buildings	40 years
Other Improvements	5 to 50 years
Machinery and Equipment	7 to 10 years
Office Machinery and Equipment	2 to 7 years
Vehicles	5 years
Infrastructure	20 to 50 years

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

Compensated Absences

The Town is not able to reasonably estimate the accrual for compensated absences. Therefore, the balance has not been recorded.

Long-Term Debt

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

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

Note 1. Summary of Significant Accounting Policies: continued

1.E. Assets, Liabilities and net Assets: continued

Long-Term Debt: continued

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."

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

Fund Financial Statements:

In the governmental fund financial statements, fund balances are classified as follows:

a. Nonspendable – amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact.

b. Restricted – amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government), or imposed by constitutional provisions or enabling legislation.

c. Committed – amounts that can be spent only for specific purposes determined by a formal action of government's highest level of decision-making authority.

d. Assigned – amounts the government intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed.

Note 1. Summary of Significant Accounting Policies: continued

1.E. Assets, Liabilities and Equity: continued

Equity Classification: continued

e. Unassigned – amounts that are available for any purpose; these amounts can be reported only in the Town's General Fund.

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.

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 U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. 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, 2012, 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, 2012.

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. Deposit and Investment Laws and Regulations

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 the Town (excluding Public Trusts) are limited by state law to the following:

1. Direct obligations of the U.S. Government, its agencies or instrumentalities to the payment of which the full faith and credit of the Government of the United States is pledged, or obligations to the payment of which the full faith and credit of this state is pledged;

2. Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions;

3. With certain limitation, negotiable certificates of deposit, prime bankers acceptance, prime commercial paper and repurchase agreements with certain limitations;

Note 2. Stewardship, Compliance and Accountability: continued

2.D. Deposit and Investment Laws and Regulations: continued

4. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district;

5. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligation of national mortgage associations;

6. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs 1., 2., 3., and 4.

Public trusts created under O.S. Title 60 are not subject to the above noted investment limitations and are primarily governed by any restrictions in their trust or bond indentures. For the year ended June 30, 2012, the Town and its public trusts complied, in all material respects, with these investment restrictions

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, 2012, 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, 2012.

Note 3. Detail Notes – Transaction Classes/Accounts

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues and expenditures/expenses.

3.A. Deposits and Investments

The following is a table of deposits and investments for the Town at June 30, 2012 by type:

				Maturity in Years	
	Credit Rating	Carrying Value	On Demand	Less Than One	1 - 5
Type of Deposits:					
Demand deposits	N/A	$ 128,689	$ 128,689		
Time deposits	N/A	71,505		-	71,505
Total Deposits		$ 200,194			
Reconciliation to Statement of Net Assets:					
Cash and cash equivalents		$ 102,192			
Investments		44,340			
Restricted cash and cash equivalents		26,497			
Restricted investments		27,165			
		$ 200,194			

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, 2012.

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.

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 consists 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:

Governmental Activites:

	Sales Tax	Franchise Taxes	Other Receivables	Total
Accounts receivable	$ 13,931	$ 2,133	$ 5,466	$ 21,530

Business-type Activities:

Accounts Receivable	$ 36,059

3.C. Restricted Assets

Restricted assets consist of the following:

	Cash	Certificates of Deposit	Total
Utility deposits	$ 1,170	$ 15,497	$ 16,667
Debt reserve - water system	25,327	-	25,327
Debt reserve - sewer system	-	11,668	11,668
	26,497	27,165	53,662

Note 3. Detail Notes – Transaction Classes/Accounts: continued

3.D. Capital Assets

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

	Balance July 1, 2011	Additions	Deletions/ Transfers	Balance June 30, 2012
Governmental Activities:				
Non-depreciable assets				
Land	$ 3,500	$ -	$ -	$ 3,500
Construction in progress	41,493	-	41,493	-
Total Non-depreciable assets	44,993	-	41,493	3,500
Depreciable assets				
Buildings	68,317	41,493	-	109,810
Infrastructure	280,264	-	-	280,264
Vehicles	182,109	-	45,585	136,524
Equipment	99,176	-	-	99,176
Total capital assets being depreciated	629,866	41,493	45,585	625,774
Less: accumulated depreciation for				
Buildings	30,770	4,799	-	35,569
Infrastructure	107,631	13,781	-	121,412
Vehicles	114,255	14,128	45,585	82,798
Equipment	96,933	801	-	97,734
Total accumulated depreciation	349,589	33,509	45,585	337,513
Governmental activities capital assets, net	$ 325,270	$ 7,984	$ 41,493	$ 291,761

	Balance July 1, 2011	Additions	Deletions/ Transfers	Balance June 30, 2012
Business-Type Activities:				
Non-depreciable assets				
Land	$ 211,165	$ -	$ -	$ 211,165
Total Non-depreciable assets	211,165	-	-	211,165
Depreciable assets				
Buildings	6,946	-	-	6,946
Water and sewer system	2,664,341	22,234	-	2,686,575
Vehicles	5,800	-	-	5,800
Equipment	37,155	25,800	-	62,955
Total capital assets being depreciated	2,714,242	48,034	-	2,762,276
Less: accumulated depreciation for				
Buildings	6,946	-	-	6,946
Water and sewer system	1,745,498	107,622	-	1,853,120
Vehicles	5,800	-	-	5,800
Equipment	24,512	6,257	-	30,769
Total accumulated depreciation	1,782,756	113,879	-	1,896,635
Business-Type activities capital assets, net	$ 1,142,651	$ (65,845)	$ -	$ 1,076,806

Note 3. Detail Notes – Transaction Classes/Accounts: continued

3.D. Capital Assets: continued

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

Functional Category	Amount
General Government	$ 17,190
Public Safety and Judiciary:	
Fire	16,319
Total depreciation expense	$ 33,509

3.E. Meter Deposits

The Public Works Authority is holding customers' meter deposits in the amount of $16,667 and has reserved adequate assets to refund these deposits, as required by statute.

Restricted investments	$ 15,497
Restricted cash and cash equivalents	1,170
Total available funds	16,667
Utility deposit liability	$ 16,667

3.F. Long-Term Debt

The reporting entity's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to repaid from business-type activities.

Governmental Activities Long-term Debt

The Town entered into a capital equipment lease purchase agreement on June 15, 2010 with Welch State Bank for a 1990 GMC pumper fire truck in the amount of $35,200. Monthly payments of $501 began July 15, 2010 and include interest of 5.18%. The final lease payment is due on December 15, 2016. As of June 30, 2012 the lease to maturity is as follows:

Year Ending June 30	Principal	Interest	Total
2013	$ 4,751	$ 1,258	$ 6,009
2014	5,003	1,006	6,009
2015	5,269	740	6,009
2016	5,549	460	6,009
2017	5,675	334	6,009
	$ 26,247	$ 3,798	$ 30,045

Note 3. Detail Notes – Transactions Classes/Accounts: continued

3.F. Long-Term Debt: continued

Business-Type Activities

As of June 30, 2012, 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, 2012 was $309,920. 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, 2012 was $99,321. 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, 2012 was $91,017. The note is secured by the land.

The Authority executed a note payable to Welch Public Works on June 27, 2011 in the amount of $25,800, bearing interest at 4.21% per annum, payable in 61 monthly installments of $477.65 and maturing July 2017. The balance at June 30, 2012 was $ 21,051. The note is secured by a New Holland tractor.

Total notes payable to be repaid by the Authority at June 30, 2012 are as follows:

Long-term debt	$ 521,315
Less: Current portion	(26,996)
Total long-term debt, less current portion	$ 494,319

Note 3. Detail Notes – Transactions Classes/Accounts: continued

3.F. Long-Term Debt: continued

Business-Type Activities: continued

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

Year Ending June 30	Principal	Interest	Total
2013	$ 26,600	$ 24,816	$ 51,416
2014	27,920	23,496	51,416
2015	29,307	22,109	51,416
2016	30,764	20,652	51,416
2017	26,184	19,500	45,684
2018 - 2022	149,473	72,251	221,724
2023 - 2027	105,598	40,482	146,080
2028 - 2032	94,680	18,240	112,920
2033	30,789	1,054	31,843
	$ 521,315	$ 242,600	$ 763,915

Changes in Long-Term Debt

The following is a summary of the changes in general long-term debt for the fiscal year ended June 30, 2012:

	Amount Outstanding July 1, 2011	Issued	Retired	Amount Outstanding June 30, 2012	Amount due in one year
Governmental Activities:					
Capital lease payable	$ 30,528	$ -	$ 4,281	$ 26,247	$ 4,751
Business-Type Activites:					
Notes payable	522,241	25,800	26,726	521,315	26,600
	$ 552,769	$ 25,800	$ 31,007	$ 547,562	$ 31,351

Note 3. Detail Notes – Transactions Classes/Accounts: continued

3.G. 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	$ (79,756)
Depreciation	113,879
Other revenue (expense)	18,915
Annual installment payments on notes	(33,084)
Available funds over loan covenant requirements	$ 19,954

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	$ 25,327
Total available funds	25,327
Loan resolution requirements	(22,572)
Available funds over requirements	$ 2,755
Sewer Debt Service Reserve Fund	
Cash	$ 11,668
Total available funds	11,668
Loan resolution requirements	(10,512)
Available funds over requirements	$ 1,156

Note 3. Detail Notes – Transactions Classes/Accounts: continued

3H. Inter-fund Transfers

Inter-fund transfers for the year ended June 30, 2012 were as follows:

Transfer to (from)	Amount	Nature of Interfund Balance
Fire Fund	$ 108	To subsidize operations of the general fund
Cemetery Fund	2,061	To subsidize operations of the general fund
	$ 2,169	

	Trasfers to Other Funds	Transfers from Other Funds	Net Transfers
Reconciliation to fund financial statements:			
Governmental Funds	$ (12,877)	$ 12,877	$ -
Enterprise Funds	-	-	-
Totals	$ (12,877)	$ 12,877	$ -

Note 4. Other Information

4.A. 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, 2911, 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.

4.B. 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.

Note 4. Other Information: continued

4.C. Proprietary Fund Rates and Charges

In Town Water Rates and Charges	
Minimum monthly charge on first 1,000 gallons	$ 15.00
Price per thousand gallons for next 4,000 gallons	3.50
Price per thousand gallons on gallons over 5,000	4.00
Out of Town Water Rates and Charges	
Minimum monthly charge on first 1,000 gallons	$ 17.00
Price per thousand gallons for next 4,000 gallons	3.50
Price per thousand gallons on gallons over 5,000	4.00
Sewer Rates and Charges	
Minimum monthly charge on first 1,000 gallons	$ 10.50
Price per thousand gallons for next 4,000 gallons	1.90
Price per thousand gallons on gallons over 5,000	2.00

4.D. Prior Period Adjustment

During 2012, it was discovered by management that the volunteer fire department fund included in the governmental activities is not a fund of the Town but is its own entity with its own reporting requirements.

	As Reported June 30, 2011	As Restated June 30, 2012
Governmental Activities		
Cash - Volunteer Fire Department	$ 19,984	$ -
Unrestricted Net Assets - Governmental	107,824	87,840

4.E. Subsequent Events

Management has evaluated subsequent events up to and including May 27, 2013, which is the date the financial statements were available for issuance, and no additional disclosures are required.

REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information (RSI) includes financial information and disclosures that are required by the GASB but are not considered a part of the basic financial statements. Such information includes:

- Budgetary Comparison Schedule – General Fund

Town of Welch
Budgetary Comparison Schedule
Budget (Non-GAAP Basis) and Actual (with Variances)
General and Fire Fund
June 30, 2012

Management was unable to provide the fiscal year 2012 budget, therefore, no budget to actual comparison is presented for the fiscal year 2012.

INTERNAL CONTROL AND COMPLIANCE SECTION

OBER & ASSOCIATES INC., PC
CERTIFIED PUBLIC ACCOUNTANTS
124 South Main
Miami, Oklahoma 74354
918-542-4401

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 Honorable Board of Trustees
Town of Welch, Oklahoma

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Welch, Craig County, Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise the Town of Welch, Craig County, Oklahoma's basic financial statements and have issued our report thereon dated May 27, 2013. In our report we included an explanatory paragraph stating that the Town has not presented the management's discussion and analysis or the budgetary comparison information that governmental accounting principles generally accepted in the United States of America require to supplement the basic financial statements. 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 the Town of Welch, Craig County, 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 the Town of Welch, Craig County, Oklahoma's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Welch, Craig County, 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.

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 item 2012-1 as described in the accompanying schedule of findings and responses to be a material weakness.

Compliance and Other Matters

As a part of obtaining reasonable assurance about whether the Town of Welch, Craig County, 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. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standard.*

Town of Welch, Craig County, Oklahoma's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Town of Welch, 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, the Oklahoma State Auditor and Examiner and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ober & Associates, Inc., PC

OBER & ASSOCIATES, INC., PC
CERTIFIED PUBLIC ACCOUNTANTS
May 27, 2013

Town of Welch, Oklahoma
Schedule of Findings and Reponses
For the Year Ended June 30, 2012

2012-1: Segregation of Duties and Safeguarding of Assets

Criteria or Specific Requirement – Effective internal controls require a separation of duties (i.e. collection of accounts receivable should be separated from the reconciliation of bank statements) so that assets are adequately safeguarded and to prevent and detect fraud.

Condition – One individual is responsible for billing, collections, maintenance of accounts receivable, deposits, reconciliation of bank accounts and posting to the general ledger with limited oversight from management.

Context – Duties listed above should be completed by more than one person with a member of management reviewing the work that has been completed.

Effect – The Town is susceptible to misappropriation of assets and possible fraudulent activities that may not be discovered in the normal course of business.

Cause – Lack of sufficient resources to hire additional staff for segregation of duties.

Recommendation – Management should hire additional staff or take a more active role in reviewing the work of the bookkeeper hired to perform the accounting duties.

Response – Management agrees that they are susceptible to misappropriation of assets or fraud, but at this time does not feel the benefits gained would outweigh the additional expenses and thus would not be cost effective. Management has also hired an outside accounting firm to assist in the preparation of cash reconciliations and financial statements.

Town of Welch, Oklahoma
Schedule of Prior Years Findings
For the Year Ended June 30, 2012

FINDING 2011-1: Adequate Record Keeping

Condition: This finding was a material weakness stating that some minutes of Council actions were not available in the Town's records.

Recommendation: The auditor recommended that the Town should develop policies and procedure for all significant transaction classes and operational functions.

Current Status: Formal policies and procedures and have not been developed but all minutes to Council meetings are being maintained and were available for the current year. No similar findings were noted in the 2012 audit.

FINDING 2011-2: Relationships With Other Entities

Condition: This finding was a significant deficiency stating that the Town currently reports, as part of the cash balance in the Town's Fire Department Fund, amounts held by a not for profit organization, the Town of Welch Fire Department Fund.

Recommendation: The auditor recommended that 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.

Current Status: This recommendation was agreed by the Council and the cash balance for the Welch Fire Department Fund has been eliminated from the Town's financial statements.

FINDING 2011-3: Policies and Procedures

Condition: This finding was a material weakness stating that 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.

Recommendation: The auditor recommended that the Town develop policies and procedures for all significant municipal operational, financial, or employee matters.

Current Status: The Town has not yet developed policies and procedures for all significant municipal operational, financial, or employee matters.

FINDING 2011-4: Payroll Procedures

Condition: This finding was a material weakness stating that the Town does not maintain documented policies and procedures to its operations, including payroll. As such, payroll related issues for non-compliance with tax authorities resulted in unnecessary penalties and interest.

Town of Welch, Oklahoma
Schedule of Prior Years Findings
For the Year Ended June 30, 2012

FINDING 2011-4: Payroll Procedures

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

Current Status: The Town has not yet developed policies and procedures for all significant municipal operational, financial, or employee matters, but all payroll issues for non-compliance with tax authorities has been addressed and all required reporting is now being done in a timely manner.

FINDING 2011-5: Governance over Financial Reporting

Condition: This finding was a material weakness stating that 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.

Recommendation: The auditor recommended that the Town should develop policies and procedures for all significant municipal operational, financial, or employee maters.

Current Status: The Town has not yet developed policies and procedures for all significant municipal operational, financial, or employee matters. Also see current years finding 2012-1.